OFFICE OF THE

Auditor General of British Columbia

2011/2012 ANNUAL REPORT AND 2012/13–2014/15 SERVICE PLAN

www.bcauditor.com

OUR YEAR IN NUMBERS

$40 billion
in government revenue
audited as part of our audit of government's Summary Financial Statements

$40 billion
in government expenses
audited as part of our audit of government's Summary Financial Statements

$69 billion
in government assets
audited as part of our audit of government's Summary Financial Statements

1
audit reservation
on the Summary Financial Statements[1]

70
pieces of work
released

34
opinions issued
on financial statements

67
recommendations made
in public reports

1 Observations on Financial Reporting: Summary Financial Statements

OFFICE OF THE
Auditor General
of British Columbia

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June 28, 2012

The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

As mandated under Section 22 of the *Auditor General Act*, I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia my *2011/2012 Annual Report and 2012/13–2014/15 Service Plan*.

This document combines the Office's annual report with our service plan and has been audited by independent auditors Grant Thornton.

It is an exciting and challenging time to undertake the work of the Office, and I am pleased to report strong results in our key performance areas of relevancy, value, efficiency and excellence.

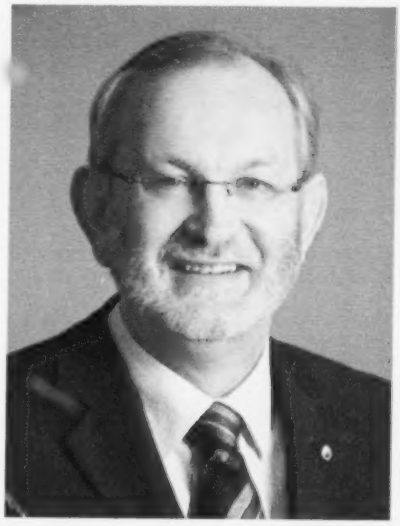
In our annual survey of Members of the Legislative Assembly (MLAs), the vast majority of respondents agreed that the Office's work during 2011/12 contributed to promoting efficient and accountable government – a result that affirms the value of our work. With respect to efficiency, we exceeded our performance target by producing 70 audit reports, resources and opinions during the 2011/12 timeframe. We also received an employee engagement score of 74, which was both 10 points higher than in 2010/11 and nine points higher than the BC Public Service average this year.

I look forward to building on our successes in 2012/13.

John Doyle, MAcc, CA
Auditor General

Victoria, British Columbia

MESSAGE FROM THE AUDITOR GENERAL



Auditor General John Doyle

This is the fifth annual report and service plan I have prepared for the Legislative Assembly of British Columbia, and I am pleased to report strong results for the 2011/12 year.

Our four key performance indicators measure the Office's relevancy, value, efficiency and excellence. Reflecting our ongoing efforts to be relevant and responsive to issues raised by British Columbians, one of our 13 performance audit reports in 2011/12 originated from an external audit suggestion, and additional audit projects resulting from external suggestions are currently underway. In our annual survey of Members of the Legislative Assembly (MLAs), the vast majority of respondents agreed that the Office's work during 2011/12 contributed to promoting efficient and accountable government – a result that affirms the value of our work. (Only one MLA who responded, a member of government, disagreed.) With respect to efficiency, we exceeded our performance target by producing 70 audit reports, resources and opinions during the 2011/12 timeframe.

Our key performance indicator for excellence merits special attention this year. The quantity and quality of the Office's work relies on having high-performing and engaged staff, which is why we measure our success for this indicator using the engagement score from our annual work environment survey. In late 2011, we received an employee engagement score of 74, which is 10 points higher than in the year before. My staff and I made a concerted effort to identify opportunities for improvement and increase engagement following the 2010 survey, and the results are gratifying.

It is an exciting and challenging time to undertake the work of the Office. There have been several shifts in accounting and auditing standards in the past few years, which have significantly affected how we, as well as government, do our work. Canadian generally accepted auditing standards, as well as the accounting standards that underlie government's financial reporting, are in the midst of an unprecedented change. Financial statement auditors are now required to follow Canadian Auditing Standards. Meanwhile, all government organizations are transitioning to either International Financial Reporting Standards or Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

As a result, all financial statement auditors will need to be conversant with both international standards and the Canadian public sector standards. The Office has played a leading role over the past two years in helping to ease this transition, which has required additional training for our financial audit staff and placed significant demands on our time and resources. We will continue to support government as it prepares for, and implements, these changes.

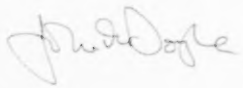
In November 2011, we presented the Office's estimate of resources to the Select Standing Committee on Finance and Government Services. We requested a one-time increase in funding of $643,000 over the $15.937 million the committee had approved in 2010 for 2012/13. This additional funding would have allowed us to:

- train our staff on the new accounting and auditing standards;
- address serious infrastructure issues by moving to a new, seismically safe location; and
- support our work on the Audit Learning Network, an online initiative developed in-house to help train our staff and share the Office's leading-edge performance audit practices with the larger audit community.

However, the committee did not approve the full funding requested. Instead, it cut our budget back to the 2011/12 level of $15.752 million.

The estimate of resources reflects what I consider necessary to exercise the powers of the *Auditor General Act* and perform the duties it calls for. My staff and I are currently planning how best to allocate our resources to meet this challenge.

In closing, I would like to acknowledge the dedicated professionals who strive to elevate and uphold the reputation of the Office of the Auditor General. I look forward to building on our successes in 2012/13.



John Doyle, MAcc, CA
Auditor General

Victoria, British Columbia
June 28, 2012

ACCOUNTABILITY STATEMENT

The *2011/12 Annual Report and 2012/13–2014/15 Service Plan* of the Office of the Auditor General of British Columbia was prepared under my direction in accordance with the *Auditor General Act*. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

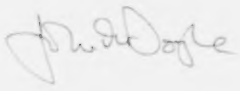
The report reflects the performance of the Office of the Auditor General for the 12 months ending March 31, 2012. All material fiscal assumptions and policy decisions up to June 1, 2012, have been considered in the development of this publication.

This combined annual report and service plan presents a comprehensive picture of the Office's actual performance. The report includes estimates and interpretive statements that represent the best judgement of management.

The measures reported are consistent with the Office's mission, goals and objectives, and focus on aspects critical to understanding the performance of the Office of the Auditor General.

I am responsible for ensuring that the Office's performance information is measured accurately and in a timely manner. Any significant limitations in the reliability of the performance data have been identified and explained.

This combined report and service plan has been prepared in accordance with the B.C. Reporting Principles and is intended for a general audience. Users who require more detailed information should contact the Office.



John Doyle, MAcc, CA
Auditor General
June 28, 2012

Grant Thornton

Independent auditor's report

To the Speaker
The Legislative Assembly, Province of British Columbia

We have been engaged to report whether the 2011/12 Annual Report and 2012/13 – 2014/15 Service Plan (the "Annual Report") of the Office of the Auditor General of British Columbia (the "Office") for the year ended March 31, 2012 fulfills the requirements of the BC Reporting Principles. The eight BC Reporting Principles outline the characteristics of good performance reporting, and have been endorsed by the Legislative Assembly's Select Standing Committee on Public Accounts for use by public sector organizations in British Columbia. The principles are detailed in the appendix to this report. This Annual Report is the responsibility of the Office.

Auditor's responsibility

Our responsibility is to assess whether the Annual Report has met the requirements of the BC Reporting Principles. We conducted our audit in accordance with Canadian standards for assurance engagements and accordingly included such tests and procedures as we considered necessary in the circumstances. The conclusion in our report is based on procedures that we determined to be necessary for the collection of sufficient, appropriate evidence in order to obtain a high, though not absolute, level of assurance that the Annual Report fulfills the requirements of the BC Reporting Principles.

As called for by the BC Reporting Principles, the Annual Report contains a number of representations from management concerning the appropriateness of the goals, objectives, and targets established by the Office, explanations of the adequacy of planned and actual performance, and expectations for the future. Such representations are the opinions of management and inherently cannot be subject to independent verification. Therefore, our examination was limited to ensuring the Annual Report contains those representations called for by the BC Reporting Principles and that they are consistent with the audited performance information and audited financial statements.

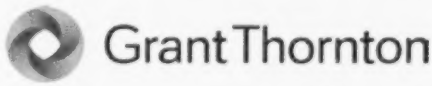
Opinion

In our opinion, this Annual Report fairly presents, in all significant respects, the performance of the Office for the year ended March 31, 2012, in accordance with the BC Reporting Principles. The following appendix contains details supporting our conclusion for each of the BC Reporting Principles, and is an integral part of our opinion.

Grant Thornton LLP

Victoria, Canada
June 27, 2012

Chartered Accountants



Appendix to Auditor's Report of Grant Thornton LLP on the 2011/12 Annual report and 2012/13 – 2014/15 Service Plan of the Office

Detailed observations

Principle 1 – Explain the Public Purpose Served

The Annual Report explains the Office's mission and public purpose, as outlined in enabling legislation. It reports on the organization's two core business areas and the services/products provided. The Annual Report includes a discussion of the involvement of private sector auditors and the quality assurance measures in place. The Annual Report details the Office's clients and stakeholders, including the accountability relationship with the Legislative Assembly. Other factors that are critical to understanding performance are identified, including independence and objectivity.

Principle 2 – Link Goals and Results

The Annual Report clearly identifies the organization's mission, mandate, goals, objectives, and successfully explains their interrelationships. Performance indicators are clearly reported and reflect the core substance of the objectives and focus on short-term and long-term outcomes. The Annual Report explains the variances between planned and actual results, variances from prior years' results and discusses plans to achieve targeted results in the future.

Principle 3 – Focus on the Few, Critical Aspects of Performance

The Annual Report provides meaningful information to readers by focusing on four key performance indicators that are critical to the understanding of the operational performance of the Office. The results of performance, both financial and nonfinancial, are clearly presented. The Annual Report manages its level of detail by referring appropriately to companion documents.

Principle 4 – Relate Results to Risk and Capacity

The Annual Report examines the key risks to the Office and explains the impact of risk and the resulting critical success factors on performance results in both a short-term and long-term context. The Annual Report addresses capacity in terms of human resources and funding and how these affect the ability to deliver organizational goals and objectives.

Principle 5 – Link Resources, Strategies and Results

The Annual Report highlights key financial information at an organization-wide level. Explanations are provided for variances from prior year and budgeted amounts. The Annual Report conveys efficiency through its discussions and analyses of performance indicators. Links between resources and outputs are discussed and contribute to the reader's understanding of the efficiency of operations.

Principle 6 – Provide Comparative Information

The Annual Report provides comparative data in its analyses of the four performance indicators. Multi-year trends are used and referenced to actual results and planned performance. For other indicators, the Annual Report explains that benchmarks and industry data were sought, but information for direct comparisons was not always available.

Principle 7 – Present Credible Information, Fairly Interpreted

The Annual Report covers all key aspects of performance and the measures used are relevant. The report clearly identifies the data sources used to assess the performance. The Annual Report is reasonably concise, effectively uses tables and graphs to present information and avoids excessive use of specialized terminology.

Principle 8 – Disclose the Basis for Key Reporting Judgements

The Annual Report identifies the sources of information for performance indicator data. Limitations to data sources, where present, are disclosed. The Annual Report discusses the Office's confidence in the reliability of the data and reports successes and shortcomings in a fair and balanced manner.

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WHO WE ARE

The Auditor General has a unique role in British Columbia. Non-partisan, independent of government and reporting directly to the Legislative Assembly, the Auditor General provides assurance about government's overall operations. The Auditor General's work is governed solely by the *Auditor General Act*.

The Auditor General is the independent auditor of the Legislative Assembly of British Columbia. Through the work of the Office of the Auditor General of British Columbia (the Office), the Auditor General serves the people of British Columbia and their elected representatives. That work includes conducting independent audits and advising on how well government is managing its responsibilities and resources. Independence is a vital safeguard for the Office in fulfilling its responsibilities objectively and fairly.

The Auditor General is appointed for a six-year term by the Legislative Assembly, and may be reappointed for a second six-year term.

JOHN DOYLE, AUDITOR GENERAL OF B.C.

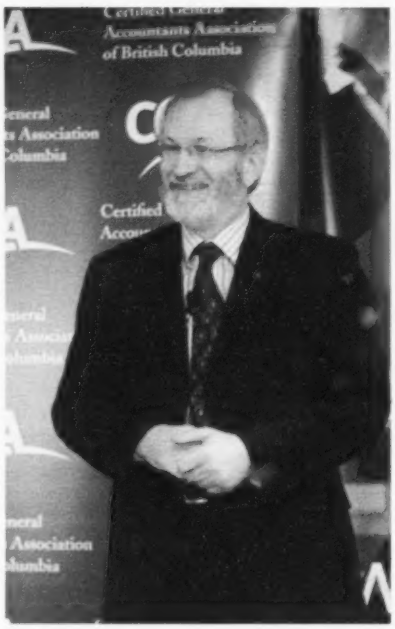
John Doyle began his term as Auditor General of British Columbia on October 29, 2007. Since then, he has established a strong presence for the Office of the Auditor General of British Columbia in the Canadian audit community, as well as in the international audit community.

Before his appointment to the Office, John was the Deputy Auditor General of Western Australia. He has also served as Chief Financial Officer at a number of major organizations.

John was Head of the School of Accounting and Finance at the University of Notre Dame in Australia, while also serving as the Director of Corporate Governance at Western Australia Health. He was a Lecturer in finance, accounting and computer science. In 2007, shortly before his appointment as Auditor General, John was named Adjunct Professor to Notre Dame's School of Business.

John is a Chartered Accountant, and also holds professional accounting designations from the United Kingdom and Australia, and has an MBA and a Master of Accounting.

John was born in Germany and educated in the United Kingdom and Australia.



Auditor General John Doyle spoke about environmental auditing and sustainability in his keynote address at the CGA-BC Eco Forum in December 2011.

WHAT WE DO

The government of British Columbia manages revenue, expenses and assets in the tens of billions of dollars. Under the authority of the *Auditor General Act*, the Auditor General must report each year, in accordance with generally accepted auditing standards, on the financial statements of the government reporting entity (GRE) to the Legislative Assembly. The GRE is composed of ministries, Crown corporations and other public-sector organizations that are controlled by, or accountable to, the provincial government, such as universities, colleges, school districts and health authorities.

The Office's annual audit of government's Summary Financial Statements is the largest audit performed in the province and provides assurance to legislators, credit rating agencies and British Columbians as to whether the financial statements present fairly the financial position and operating results of the Province. (For more information on the Offices' financial audit work, please see page 4.)

The *Auditor General Act* also allows the Auditor General to be appointed as the financial statement auditor of any organization that is included in the GRE, and to carry out performance audits. (For more information on our financial and performance audits, see page 39.)

Under the authority of the Auditor General's mandate, we use our resources to produce reports, audit opinions and best-practice guides. Through the Office's work, the Auditor General provides the people of British Columbia and their elected representatives with an independent assessment of the performance of their government. In this way, the Auditor General performs a vital role in support of the democratic process and responsible, accountable government.

"The Auditor General's Office is important."

In our 2011/12 survey of Members of the Legislative Assembly (MLAs), 100 per cent of MLAs agreed that "The Auditor General's office is important."

As well, all survey respondents said they were familiar or somewhat familiar with the work that the Auditor General conducts, and with the reports published by the Office. All MLA respondents confirmed that they knew how to contact the Office of the Auditor General.

(For more information on our annual MLA survey, please see pages 18 and 19.)

"[The] Office of the Auditor General and its reports to the Public Accounts Committee are as important a mechanism of government accountability as question period and as the estimates process."
– Bruce Ralston, MLA, Chair of the Select Standing Committee on Public Accounts, November 21, 2011 (read the transcript)

"The Office of the Auditor General is fundamentally important in our system of government."
– John Les, MLA, member of the Select Standing Committee on Public Accounts, November 21, 2011 (read the transcript)

"The extraordinary work of the provincial Auditor General has made me an ardent believer in the wisdom of that office."
– Vicki Huntington, MLA, member of the Select Standing Committee on Public Accounts, February 15, 2012 (read the transcript)

GOVERNANCE

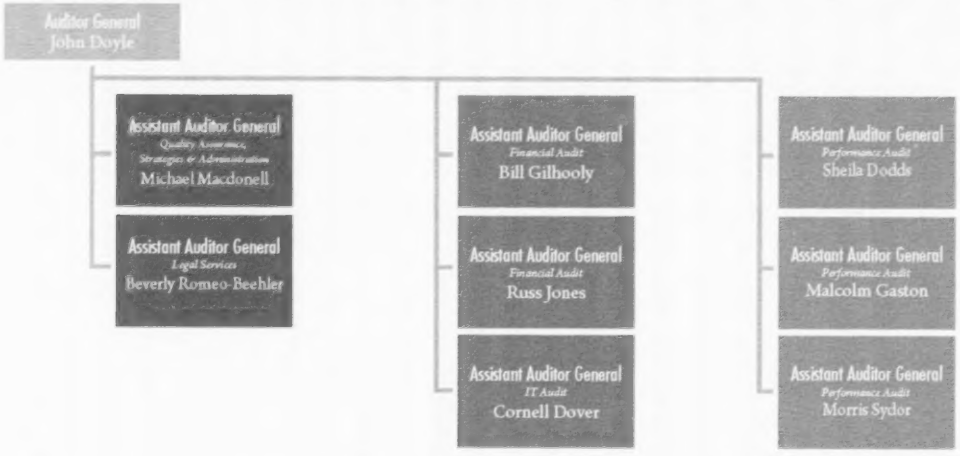
Operating Portfolios

For most of 2011/12, the Office managed two lines of business across four operating portfolios: two each for Financial Audit and Performance Audit. In October 2011, the Office added an additional portfolio to each line of business.

Two other portfolios (Legal Services and Quality Assurance, Strategies and Administration) provide office-wide support in areas such as human resource management, communication services, legal services and professional practices.

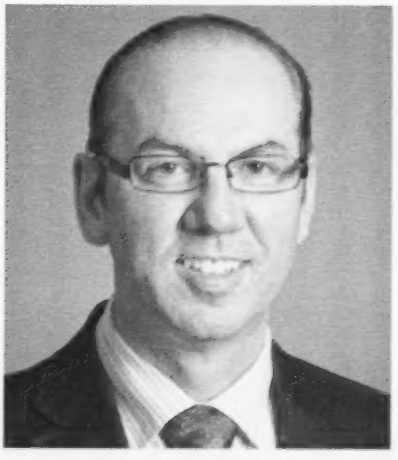
While the portfolios appear segregated in Exhibit 1, our staff collaborate across portfolios in the conduct of their work. For example, given the seasonal fluctuations of financial audits, staff members from these portfolios often contribute to work in other portfolios throughout the year. The integration of skills and abilities among portfolio areas ensures more effective results than could be achieved if each portfolio were isolated.

Exhibit 1: The 2011/12 operational structure of the Office of the Auditor General



CORNELL DOVER

The Office welcomed Cornell Dover as one of our three new assistant auditors general in 2011/12. Before joining the Office, Cornell spent 18 years with the Office of the Auditor General of Alberta. He is a Chartered Accountant with 13 years' experience as an information technology auditor, and holds designations as a CISA, CGEIT, CRISC and CISSP. Cornell also has Board experience. He is the Past President of ISACA Edmonton and a member of the CCOLA IT Committee.



Internal Audit Committee

The Internal Audit Committee is comprised of external experts in IT audit, internal audit and governance. This committee oversees a program of internal scrutiny of the Office's administrative and operational practices, providing the Auditor General with an external perspective on the effectiveness of the Office's operations. The committee also acts as a traditional corporate audit committee, overseeing the external audit of the Office's annual financial statements.

FINANCIAL AUDIT

Financial audit is our largest line of business. This work includes auditing the Province's Summary Financial Statements and examining issues related to financial management.

The annual audit of government's Summary Financial Statements is not only the largest audit the Office performs, but the largest audit conducted in British Columbia. The work takes 71 staff in the Office over 45,000 hours to complete and requires work from approximately 32 other public accounting firms and their many regional offices. In early 2011/12, we audited government's 2010/11 Summary Financial Statements, which included:

- $40 billion in revenues;
- $40 billion in expenses; and
- $69 billion in assets.

The Summary Financial Statements encompass 170 government operations, including core government, Crown corporations, trusts, colleges, school districts, universities, health authorities and other public entities.

The opinion on the Summary Financial Statements is the Auditor General's alone, but in British Columbia the audit of the GRE is accomplished through the combined work of the Office of the Auditor General and private-sector auditors.

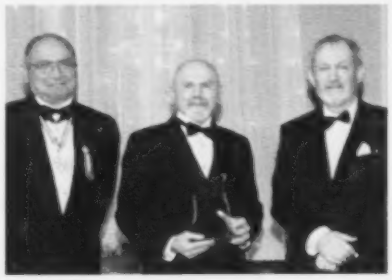
What is a financial audit?

Financial audits are performed to obtain assurance as to whether an organization's financial statements are free of material errors[2] and presented fairly. During a financial audit, an auditor determines whether, based on the audit evidence obtained, the financial statements as a whole are free of material misstatement. The auditor then provides his or her formal "opinion."

This opinion (which looks like a short letter; see page 46) is attached to the front of the organization's financial statements to provide assurance that those statements are presented in accordance with Canadian generally accepted accounting principles and have been scrutinized by an independent auditor. For more information, visit www.bcauditor.com/FAguide.

2. According to the International Financial Reporting Standards, "Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement."

Under Canadian generally accepted auditing standards, the Auditor General must have "sufficient knowledge and understanding" of the operations of the organizations represented in the Summary Financial Statements. This knowledge can be obtained by auditing directly some of the entities that make up the GRE. It can also be obtained by relying on the work of auditors from the private sector who have been appointed by each entity. The Auditor General audits the ministries of government, but most of the other organizations and trust funds in the government reporting entity are audited by the private sector. The Auditor General is responsible for overseeing this process.



Morris Sydor, Assistant Auditor General of Performance Audit, was honoured with the Legacy Award at the Office's 2011 staff recognition event. In his 34 years with the Office, Morris has pioneered our performance audit practice and mentored numerous staff. In particular, his work in health and environment audit has made a significant contribution to the Office's reputation across Canada as a leader in these areas.

From left to right: The Honourable Steven Point, Lieutenant Governor of British Columbia; Morris Sydor, Assistant Auditor General; and Auditor General John Doyle.

PERFORMANCE AUDIT

Our performance audits are conducted in accordance with the assurance standards of the Canadian Institute of Chartered Accountants. The Office conducts performance audit work in many sectors, including health, education, transportation, the environment and information technology.

Key areas of interest for the Office include risk management, governance and accountability. Given the significant size and scope of its operations, government cannot make fully-informed decisions without being aware of the numerous risks it faces within the province. Good governance in public-sector organizations provides clear and ethical direction, anticipates risks and communicates effectively on performance. Accountability is a key component of good governance and, for over a decade, the Office has promoted better public accountability reporting by government.

Much of our performance audit work provides support for the Auditor General's opinion on the Summary Financial Statements. The information we gain from these reports, in areas such as financial management, IT security and planning, governance, public-private partnership management and risk management, is integral to our understanding of the functioning of the reporting entity and assessment of financial risk.

Potential performance audit topics come from a variety of sources. We regularly assess the government environment and encourage suggestions from Members of the Legislative Assembly, as well as the general public.

WHAT IS A PERFORMANCE AUDIT?

Performance audits assess the wider management issues affecting an organization or program to determine whether the organization or program is achieving its objectives effectively, economically and efficiently. These audits are sometimes called "value for money" audits because they can help determine whether value is received for the money spent. For more information, visit www.bcauditor.com/PAguide.

PLANNING, FUNDING AND REPORTING CYCLE

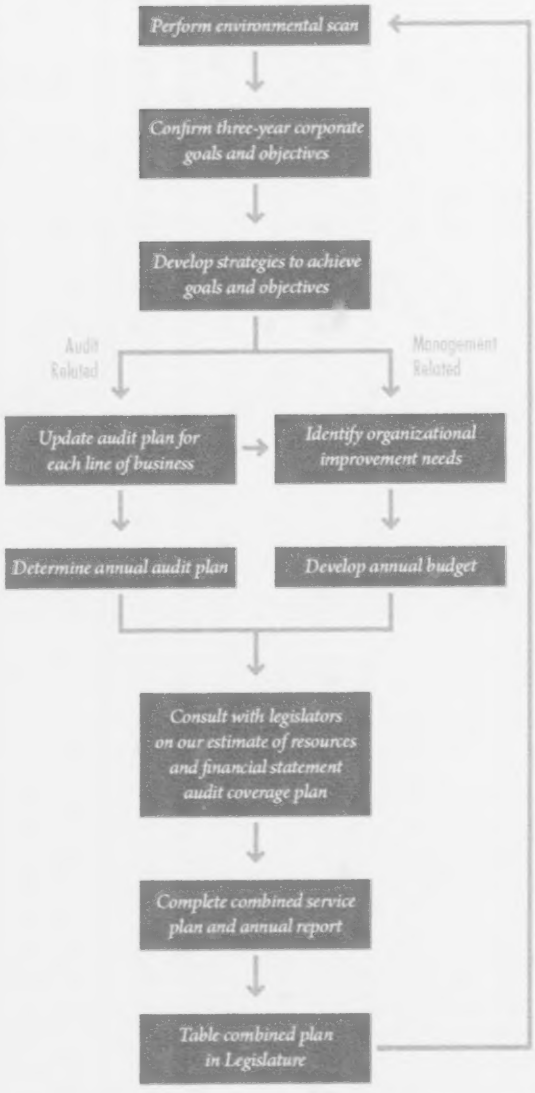
The Office's annual planning, funding and reporting cycle (Exhibit 2) determines how our corporate goals and objectives guide the development of our work plans and daily operations.

Our planning cycle begins in November when the Auditor General submits a Financial Statement Audit Coverage Plan (FSACP) to the Select Standing Committee on Public Accounts. The FSACP outlines a three-year financial audit plan for the Auditor General.

While the Office of the Auditor General directly audits all central government operations, including all government ministries, the Office does not have the capacity to audit all organizations in the government reporting entity (GRE) directly. The FSACP details which organizations in the GRE the Auditor General will audit directly and which will be audited by private-sector auditors. For those organizations audited by private-sector auditors, the Auditor General has either limited or moderate ("oversight") involvement.

- "Limited involvement" means that the role of the Auditor General is limited to ensuring that minimum professional requirements are met. This is achieved by communicating with the appointed auditors on their intended reliance or by reviewing the appointed auditors' files on a sample basis.
- "Moderate involvement" means that the Auditor General conducts extended procedures, such as attending audit committee meetings and reviewing the appointed auditors' audit plans and year-end audit files to understand the business of, and issues in, these significant organizations.

Exhibit 2: The Office's planning, funding and reporting cycle


Perform environmental scan
Confirm three-year corporate goals and objectives
Develop strategies to achieve goals and objectives
Audit Related
Management Related
Update audit plan for each line of business
Identify organizational improvement needs
Determine annual audit plan
Develop annual budget
Consult with legislators on our estimate of resources and financial statement audit coverage plan
Complete combined service plan and annual report
Table combined plan in Legislature

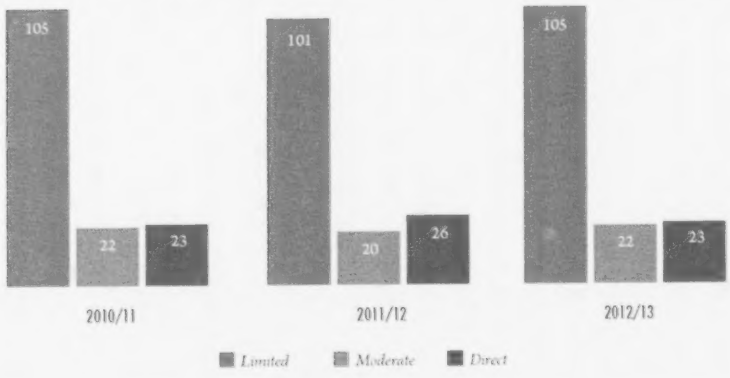
THE SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS

The Public Accounts Committee (PAC) is an all-party committee of the Legislative Assembly, chaired by a member of the official Opposition. The Auditor General must provide a Financial Statement Audit Coverage Plan to PAC each fiscal year of the government under section 10(6) of the *Auditor General Act*.

The Auditor General's reports are also referred to PAC in accordance with section 11(10)(d) of the Act.

Exhibit 3 shows a three-year summary of the Auditor General's level of involvement in each organization in the GRE, not including government's ministries.

Exhibit 3: The Auditor General's level of involvement in each organization in the government reporting entity, excluding ministries, 2010/11, 2011/12 and 2012/13



Whether the Auditor General has direct, limited or moderate involvement in each entity's audit, the Auditor General must, under Canadian auditing standards, have sufficient knowledge and understanding of each entity. This provides him, or her, with the necessary assurance to sign the annual audit opinion on government's Summary Financial Statements.

Once the FSACP is approved by the Select Standing Committee on Public Accounts, we combine the cost of carrying out the work identified in the plan with the cost of carrying out our Performance Audit line of business. The result forms our estimate of resources. We then submit our estimate of resources for approval to the Select Standing Committee on Finance and Government Services.[3]

Once approved, our estimate is included in the main estimates[4] of the Province. Traditionally, the budget for the Auditor General is Vote 2 in the budget, after the appropriation for the Legislature.

"Accounting standards in Canada are changing, which means that, this year and next, virtually all government entities will need to change to a different financial reporting framework. The majority of government organizations have been directed by government to convert to Public Sector Accounting Standards. However, government business-type organizations will be reporting under International Financial Reporting Standards (IFRS); and British Columbia Hydro and the Power Authority will be reporting under IFRS with the additional government-directed requirement to adopt a specific U.S. accounting standard for its rate-regulated costs. These changes will increase the quantum of work (and cost) during the transition for both our Office and the private-sector audit firms that audit government entities."

– Office of the Auditor General of British Columbia's *Financial Statement Audit Coverage Plan for Fiscal Years 2012/13 through 2014/15*, October 2011

3 The Select Standing Committee on Finance and Government Services, an all-party committee of the Legislative Assembly, reviews the budget submissions of the independent Officers of the Legislature.
4 "Estimates" are the detailed breakdown of proposed spending by ministry and government agencies that must be debated and approved by the Legislative Assembly of British Columbia.

The *Auditor General Act* establishes the public reporting expectations for the Office of the Auditor General of British Columbia. To improve our accountability and transparency when reporting on our performance measures, we follow the *Performance Reporting Principles for the British Columbia Public Sector* – commonly known as the B.C. Reporting Principles. These principles were agreed upon in October 2003 by government, the Legislative Assembly's Select Standing Committee on Public Accounts and the Office of the Auditor General.

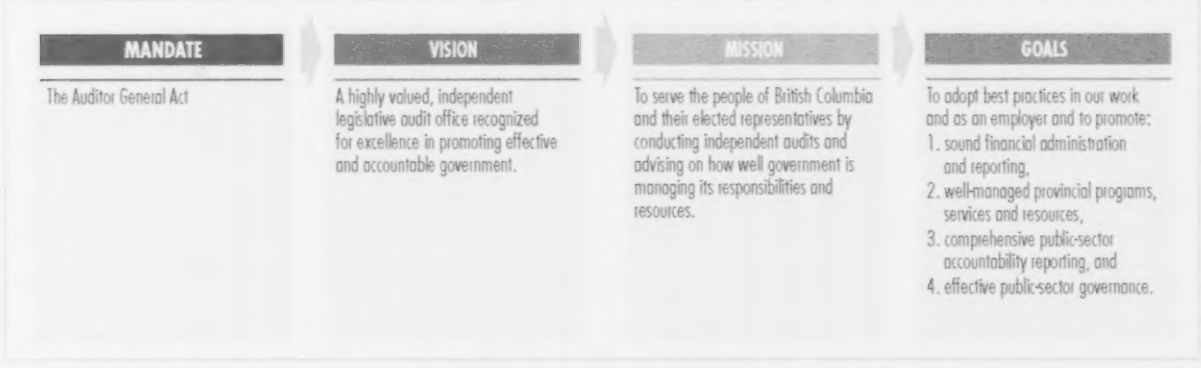
This *2011/12 Annual Report* and *2012/13–2014/2015 Service Plan* identifies the four immediate outcomes, the supporting strategies, and the performance measures and associated targets we established for 2011/12. There were no changes to our guiding principles, values or immediate outcomes in 2011/12 from the previous year's annual report and service plan.

OUR STRATEGIC FRAMEWORK

Our organizational guiding principles (our vision, mission and goals and values) lay the foundation for the strategic framework that guides the Office. This framework ensures that we continue to fulfil our legislated mandate and remain accountable to our stakeholders: British Columbians and their elected representatives.

GUIDING PRINCIPLES

The Office's vision, mission and goals are our guiding principles and flow directly from our legislated mandate to our operational lines of business.


MANDATE
The Auditor General Act
VISION
A highly valued, independent legislative audit office recognized for excellence in promoting effective and accountable government.
MISSION
To serve the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.
GOALS
To adopt best practices in our work and as an employer and to promote:
1. sound financial administration and reporting,
2. well-managed provincial programs, services and resources,
3. comprehensive public-sector accountability reporting, and
4. effective public-sector governance.

VALUES

Using our guiding principles as a foundation, we identified values that guide how we conduct our business, both externally and internally.

VALUES

External Focus

- Serving the public interest: being relevant to legislators and the public.
- Independence and objectivity: being free of influence, conflict of interest and bias.
- Trust and integrity: treating those with whom we have contact honestly and meeting our commitments consistently.

Internal Focus

- Mutual respect: managing and interacting on the basis of fairness, equity, honesty, trust and personal dignity.
- Teamwork: cooperating, supporting and respecting each other's contributions.
- Work-life balance: supporting quality-of-life endeavours and respecting personal commitments.

CRITICAL SUCCESS FACTORS

Independence, credibility and capacity are the three factors critical to the Office's success. These factors build on the foundation of our guiding principles and values and are essential for everything we do.

Independence

Above all else, we must remain independent of government and the government organizations we audit. The *Auditor General Act* contains provisions to safeguard the Office's independence. For example, the Auditor General can be appointed by the Legislative Assembly only on the unanimous recommendation of an all-party committee. As well, the Auditor General is accountable, and reports directly, to the Legislative Assembly – not to the government of the day.

The need for independence applies equally to the Auditor General's staff. As a condition of employment, all staff are obligated to remain free of associations that could potentially impair their independence.

The Office's independence helps us produce work that our stakeholders consider relevant, in that we are able to look at what MLAs and the general public believe to be key issues or areas of concern. The Office is not influenced by political or other external pressures that may deter us from conducting certain audits.

Pride in the Office's role and our work

According to our 2011/12 work environment survey, 86 per cent of staff respondents agreed with the statement "I am proud of the work I do," while 83 per cent consider their work "meaningful" and 82 per cent are proud to work for the Office.

Credibility

To be of value to the Legislative Assembly and all British Columbians, our reports and audit opinions must be considered credible. We achieve credibility by maintaining our independence and adhering to our guiding principles and professional standards.

The *Auditor General Act* requires us to adhere to Canadian auditing standards. We engage in internal quality control measures such as internal file inspections and executive-level review and challenge. Coupled with rigorous standards, these procedures ensure that our work meets professional auditing standards and reinforce our credibility.

We are also a licensed practising office of the Institute of Chartered Accountants of British Columbia (ICABC). Therefore, in addition to adhering to auditing standards, our auditors follow the ICABC code of conduct. As with public accounting firms, the ICABC reviews our work periodically to confirm we are meeting its professional standards. This is another way of reinforcing our credibility.

When our Office is credible, our work provides value to our stakeholders. Our credibility allows us to produce work on topics that we believe MLAs and the general public will find interesting and appropriate. We believe our reports make timely recommendations to improve government's performance. The Office's value is a result of producing timely and relevant work, and using our resources efficiently.

Capacity

Our third critical success factor, capacity, comes from having a sufficient quantity and quality of resources at our disposal.

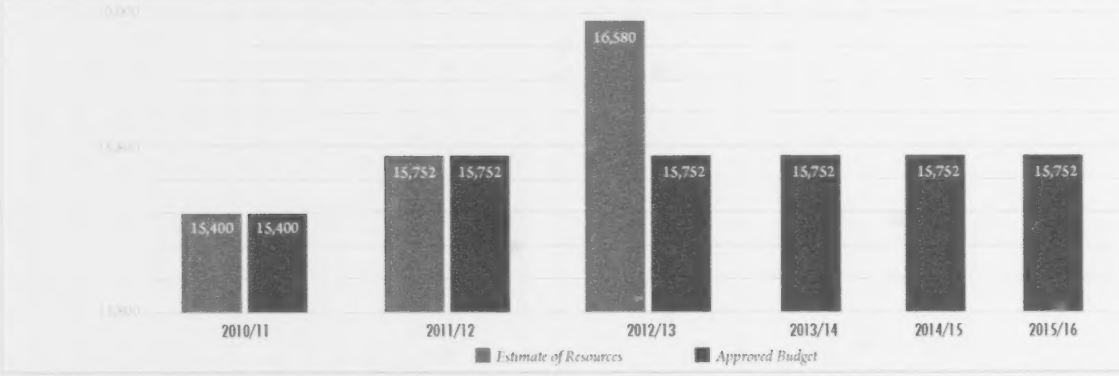
Quantity of resources

In accordance with the *Auditor General Act*, the Auditor General annually provides the Select Standing Committee on Finance and Government Services with an estimate of the resources the Office requires to perform its duties over the next three years (see page 11). The committee may adjust the estimate as it deems appropriate. Given that the Auditor General provides the Legislature with credible, relevant and valuable information and uses resource allocations efficiently, the Office expects it will receive the full amount of funding specified in the estimate of resources.

"The Finance Committee acknowledges the important work of the Office of the Auditor General and is mindful of the need to address office space needs in the future. Committee members, however, disagree on the timing of the proposed move, with the majority reluctant to sanction an increase in the operating budget in light of current economic circumstances. It was agreed, on division, that the Office continue to operate within the current budget allocation for operating expenses."

– Annual Review of the Budgets of the Independent Legislative Offices, December 14, 2011 (read the committee's report)

Exhibit 4: Estimate of resources requested by the Office compared with approved budget



The majority of our audit staff have professional accounting designations and many have additional credentials to accompany their broad experience base (Exhibit 5). Several of our performance auditors are subject matter experts in areas such as business, public administration, law, education, social and environmental sciences, human resources and health care, and many hold advanced degrees and/or certifications.

In order to have quality staff to do the Office's work, we strive to be an excellent employer that attracts and retains high-quality employees. The Office strives to earn high employee engagement scores, meet professional standards and maintain positive, professional relationships with our auditees.

In November 2010, we requested and received a budget of $15.752 million for 2011/12. The committee also approved gradual budget increases for the Office over the next two years, with total budgets of $15.937 in 2012/13 and $16.324 million in 2013/14.

In November 2011, the Office requested an increased budget of $16.58 million for 2012/13. This included a four per cent increase of $643,000 over the $15.937 million the committee had approved in 2010 for 2012/13. The one-time funding increase would allow the Office to relocate to a larger, seismically-safe building, meet our evolving information technology needs and provide staff with additional training, notably on new financial and accounting standards.

The Office is proud to support the Provincial Employees Community Services Fund (PECSF), which helps provincial government employees make financial contributions to local non-profit organizations.

In 2011/12, the Office was recognized for having the highest participation rate of all medium-sized organizations in the annual PECSF drive: 89 per cent of our employees took part in the campaign. Over the last five years alone, our employees have donated $94,150 through PECSF to support local charities. As well, the Office reviews the PECSF's annual financial statements each year, at no charge.

Senior Audit Associate Raman Aujla (above left) accepted the award on behalf of the Office. This is the sixth time in the past 10 years that the Office has won this award.

The committee did not approve the full funding requested. Instead, it cut the Office's budget from the previously approved $15.937 million, setting it back to the 2011/12 level of $15.752 million. The committee also held the Office's budget at $15.752 for the next three fiscal years.

To make the best use of the quantity of resources we receive, the Office must be efficient – especially when those resources are limited. This means we must produce the optimal volume of work possible while still maintaining our high audit standards.

To help the Auditor General conduct this work, the Office employed an average of 111 staff (full-time equivalents, or FTEs) in 2011/12 (compared with 112 staff in 2010/11).

Exhibit 5: Number of certifications and designations held by the Office's staff

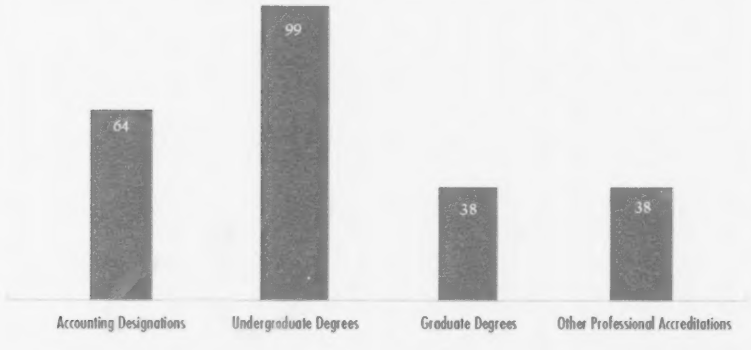


Exhibit 6: The Office's operating framework

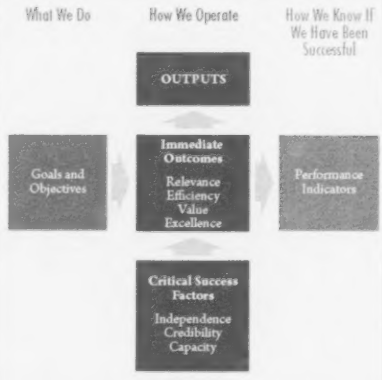


Exhibit 6 shows how the three critical success factors relate to our overall operating framework.

OUTPUTS

Under the authority of the Auditor General's mandate, we use our resources to produce reports, audit opinions and best-practice guides, as well as to provide advice.

IMMEDIATE OUTCOMES

We measure our performance through four immediate outcomes: relevance, value, efficiency and excellence. These outcomes contribute directly to our vision of being a highly valued legislative audit office and highlight factors that we feel add the greatest value for our primary client group, the Legislative Assembly.

KEY PERFORMANCE INDICATORS

Our four key performance indicators measure our success in achieving these outcomes, and allow us to compare our results and analyze our performance. We considered the following factors when selecting our key performance indicators:

- relevance of the indicators in relation to our strategic goals;
- validity of the indicators (i.e. whether they measure what they are intended to measure);
- availability and reliability of data;
- clarity, comprehensiveness and transparency of the indicators; and
- ability of the indicators to provide reliable comparisons over time.

The relationship between our immediate outcomes and our key performance indicators can be seen in the Office's strategic framework (Exhibit 7).

In addition to our key performance indicators, we track secondary performance measures for each outcome.

Exhibit 7: The Office's strategic framework

STRATEGIC DIRECTION

VISION
A highly valued, independent legislative audit office recognized for excellence in promoting effective and accountable government.

MISSION
To serve the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.

VALUES
External focus
- Serving the public interest: being relevant to legislators and the public.
- Independence and objectivity: being free of influence, conflict of interest and bias.
- Trust and integrity: treating those with whom we have contact honestly and consistently meeting our commitments.

Internal focus
- Mutual respect: managing and interacting on the basis of fairness, equity, honesty, trust and personal dignity.
- Teamwork: cooperating, supporting and respecting each other's contributions.
- Work-life balance: supporting quality-of-life endeavours and respecting personal commitments.

GOALS
To adopt best practices in our work and as an employer and to promote:
1. Sound financial administration and reporting,
2. Well-managed provincial programs, services and resources,
3. Comprehensive public sector accountability reporting, and
4. Effective public sector governance.

CRITICAL SUCCESS FACTORS

INDEPENDENCE
The Office must remain independent of the government and government organizations that we audit. We are accountable to and report directly to the Legislative Assembly, and not the government of the day.

CREDIBILITY
The Office's credibility is achieved by maintaining independence and adhering to principles and professional standards.

By adhering to Canadian generally accepted auditing standards and actively engaging in internal quality control, our work meets professional audit standards.

The Office also follows the Institute of Chartered Accountants of British Columbia code of conduct and is reviewed by the Institute periodically.

CAPACITY
Quantity of resources
The Office annually presents to Legislature a credible and relevant estimate of the resources required to perform the Office's duties, based on efficient resource allocation.

CAPACITY
Quality of resources
The majority of audit staff have accounting designations. Office staff may hold additional credentials that assist them in their field of focus.

IMMEDIATE OUTCOMES

RELEVANCE
- Addressing key issues or areas of concern to British Columbians and their elected representatives in our audit work.
- Enhancing the credibility of the provincial government's financial reporting through our audit work on the Summary Financial Statements.
- Producing audit opinions, reports and other information that are timely and responsive to the concerns of MLAs and the public.
- Contributing to better government by providing useful recommendations.

VALUE
Producing audit opinions, reports and other information that MLAs and the entities we audit find valuable, accessible and useful – while still meeting or exceeding professional audit and accounting standards.

EFFICIENCY
Utilizing the funding the Office receives as to produce the optimal volume of work, and by extension, the impact our work has.

EXCELLENCE
Excellence is comprised of employee engagement, meeting professional standards, and maintaining positive, professional relations with our auditees.

KEY PERFORMANCE INDICATORS (KPIs)

RELEVANCE
Proportion of performance audit reports completed in response to questions from MLAs and British Columbians.

VALUE
Percentage of MLAs surveyed who believe our work over the last year promoted efficient and accountable government.

EFFICIENCY
Number of reports, resources and opinions completed.*

EXCELLENCE
Staff motivated and inspired ("engaged") by their work.

* Prior to 2011/12, this KPI read "Number of audits completed" although the measurement actually included reports, resources and opinions. The KPI wording has been changed this year to better reflect the actual measurement.

SETTING TARGETS

We strive for continuous improvement and, to that end, set 'stretch targets' for our key performance indicators. At the same time, our targets must be grounded in risk assessment and past performance and, where possible, be informed by benchmark comparisons. The latter are challenging to find because other legislative audit offices measure their performance in different ways, have different degrees of public accountability and, in some cases, have different mandates.

ENSURING DATA RELIABILITY

The performance data in this report is obtained from three main sources: the Office's internal management information systems, our publicly available audit reports and third-party survey data. Data sources and quality are described for each key performance indicator. Data reliability means that:

- all performance data in this annual report is reliable and verifiable and has been independently assessed by external auditors (see page vi);
- internally generated data is compiled by internal financial and communications groups;
- externally generated data is provided by professional, third-party survey providers producing data on our behalf; and
- any significant limitations in the quality of the data presented are fully disclosed.

Exhibit 8 shows the summary of our 2011/12 key performance indicator (KPI) results and their connection to our immediate outcomes.

Exhibit 8: Summary of 2011/12 performance results

Immediate Outcome	Key Performance Indicator	Target	2010/11 Actual	2011/12 Actual
Relevance	Proportion of performance audit reports completed in response to questions from MLAs and British Columbians	10–20%	17%	8%
Value	Percentage of MLAs surveyed who believe our work over the last year promoted efficient and accountable government	80%	83%	79%
Efficiency	Number of reports, resources and opinions completed*	69	71	70
Excellence	Staff motivated and inspired ("engaged") by their work (measured by BC Stats' overall engagement score)**	75	64	74

RELEVANCE

Definition

Relevance means:

- addressing key issues or areas of concern to British Columbians and Members of the Legislative Assembly (MLAs) in our audit work;
- enhancing the credibility of the provincial government's financial reporting through our audit work on the Summary Financial Statements;
- producing audit opinions, reports and other information that are useful to, and readily understood by, MLAs and members of the public; and
- contributing to better government by providing useful recommendations, both in our public reports and in our communications with the management of audited organizations after each audit.

We determine our relevance by assessing the proportion of performance audit reports we complete in response to questions or suggestions from MLAs and British Columbians. Our audit topic selection process considers long-term risks and significance, balanced with the need to respond to current issues and audit topics suggested by legislators and the public. (For more information on how the Office selects audit topics , click here.)

* Prior to 2011/12, this KPI read "Number of audits completed" although the measurement actually included reports, resources and opinions. The KPI wording has been changed this year to better reflect the actual measurement.

** In the Office's 2010/11 Annual Report and 2011/12–2013/14 Service Plan, we measured this KPI using the engagement data collected just prior to the report's completion (June 2011). This report uses that same engagement score because it was collected during the 2011/12 fiscal year. In the future, we will use the engagement score collected in a report's fiscal year in order to measure this KPI.

We consider our work relevant when our Financial Statement Audit Coverage Plan is endorsed by the Select Standing Committee on Public Accounts. We also gather feedback from MLAs as to whether they find our publications timely and responsive to current issues. We track public interest in our work by monitoring the number of times our reports and other materials are viewed online. Finally, we monitor the implementation status of our report's recommendations.

Financial audit staff members toured BC Place as part of their audit fieldwork.

From left to right: Audit Associate Shannon Cheng, Senior Auditor Albert Low, Auditor Betty Ho, and Manager Joel Adams.

Targets and Performance

Key Performance Indicator

One of the Office's key operational objectives is to be responsive to our clients: British Columbians and their elected representatives. As such, we encourage MLAs and members of the public to provide suggestions for audit topics to the Office by mail or online at www.bcauditor.com. In our 2011/12 survey of MLAs, we invited respondents to share their suggestions for audits or investigations. We received 13 suggestions as a direct result of this invitation.

We also receive audit suggestions year-round from MLAs, the public, non-profit organizations, labour organizations, industry associations and academic researchers. Each suggestion is reviewed and, as appropriate, incorporated into our long-term planning processes.[5] Not all audit suggestions can be pursued. We receive many more suggestions than we have the capacity to address, and some suggestions are either outside of the Office's mandate or do not fit within our audit selection criteria.

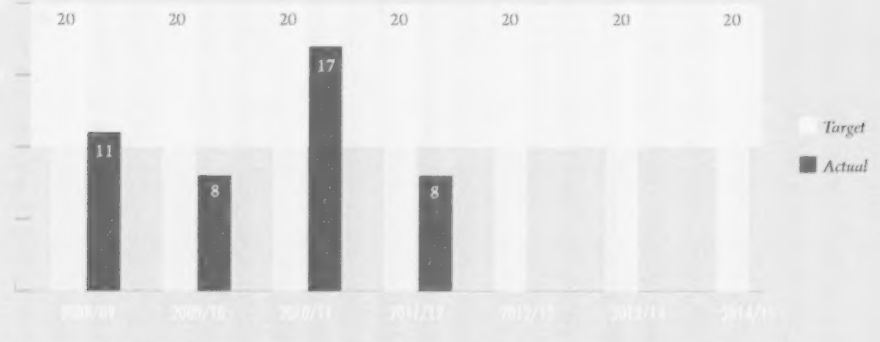
In our view, the proportion of performance audit reports originating from an external question or request is indicative of how responsive we have been to our clients and, by extension, the relevance of our work. In 2011/12, one of the 13 reports we completed was in response to an external request (Exhibit 9) – that is, eight per cent: the Office was one report short of meeting our KPI target of 10–20 per cent.

Exhibit 9: Work completed in response to questions from MLAs and British Columbians, 2011/12

Report	*Individual(s) who requested or suggested the audit*
An Audit of the Ministry of Forests, Lands and Natural Resource Operations' Management of Timber	*Member of the Legislative Assembly and a member of the public*

5 The planning and investigation stages of the Office's audits are confidential in order to ensure the independence of our work. Upcoming reports are posted on the Work in Progress page of our website once the sensitive stages of our audits are completed.

Performance Indicator 1: Percentage of performance audit reports completed in response to questions from MLAs and British Columbians



Source: Office of the Auditor General of British Columbia management information system

Looking Ahead

We do not control the quality, quantity or relevance of the requests we receive and, therefore, it is challenging to commit to a pre-determined number of audits derived from external suggestions. However, we actively invite audit suggestions on our website, at meetings with MLAs and the Select Standing Committee on Public Accounts, through the YouTube video presentations of our reports and in our responses to correspondence.

A number of audit projects resulting from external suggestions are currently underway, and we continue to anticipate that between 10 to 20 per cent of our performance audit reports (approximately two reports) each year will be in response to external suggestions.

Other Indicators of Relevance

Financial Statement Audit Coverage Plan

Our work is relevant when it enhances the credibility of the provincial government's financial reporting. We achieve this by developing an appropriate Financial Statement Audit Coverage Plan for our audit work on the Summary Financial Statements, in accordance with audit standards.

The 2012/13–2014/15 Financial Statement Audit Coverage Plan was endorsed without changes by the Select Standing Committee on Public Accounts (PAC) in November 2011.[6]

6 Select Standing Committee on Public Accounts, November 2, 2011 minutes from Hansard Services (read the minutes).

The Office bases our level of involvement with each organization on an assessment of risk. Relevant risks we consider include whether the organization:

- delivers a core service;
- has a high level of public interest;
- is significantly funded through appropriation or has significant financial impact on the Summary Financial Statements;
- has a high inherent risk to government (with respect to programs delivered or roles fulfilled);
- is a complex organization;
- likely has future issues that could materially impact the Summary Financial Statements; or
- has other risk-based factors.

To better align with new standards for the audit of Summary Financial Statements, we have increased our planned audit coverage in the health and education sectors over the past several years.

Our highest level of involvement continues to be in the Crown corporation group. In 2011/12, we were involved with 16 direct and four oversight audits of the 39 total entities in this group; in 2012/13, we will be involved with 14 direct audits and four oversight audits of the 42 total entities. Crown corporations tend to be more significant than other government entities in terms of expenditures, and to carry more risk to government as a whole.

Relevance to Members of the Legislative Assembly

Since 2008, we have conducted an annual survey of all MLAs to assess whether they think our work is relevant and provides value. The survey asks MLAs about their knowledge of the Office and our work over the past year, and seeks their views about our reports, our credibility and our responsiveness to their needs. The survey is conducted on behalf of the Office by an independent survey company, R.A. Malatest and Associates Ltd. For further information on this survey and our 2011/12 results, please refer to the "Value" section of this report (page 21).

In our 2011/2012 survey, 71 per cent of MLA respondents agreed that the Auditor General has been responsive to significant issues that fall within his mandate and that the Auditor General's reports are credible, independent and objective. However, responses were noticeably divided along political party lines: while a few members of government disagreed and some were neutral, all responding members of the official opposition and independent members agreed with both statements (Exhibit 10).

"The way in which government conducts business has become increasingly complex in recent years. For example, public-private partnerships significantly increase the complexity of government's management of capital investment and operations. This makes our monitoring of risk to the Summary Financial Statements more onerous and will continue to increase the demands on our professional staff and resources."

– Office of the Auditor General of British Columbia's Financial Statement Audit Coverage Plan for Fiscal Years 2012/13 through 2014/15, October 2011

Exhibit 10: MLAs' survey response with respect to the Office's relevance, 2011/12

	Members of Legislative Assembly (37 respondents)		
	Agree	*Neutral*	*Disagree*
"The Auditor General has been responsive to significant issues that fall within his mandate."	27	8	2
"The Auditor General's reports are credible, independent and objective."	27	6	4

Relevance to the Public

To help us monitor whether the public considers our work relevant to their needs and interests, we track the number of times each of our reports is downloaded from our website (Exhibit 11). As part of our commitment to sustainability and the environment, all reports in 2011/12 were produced in electronic format only: a report must be downloaded to be read. While the numbers alone do not indicate whether our work is considered relevant, download rates do demonstrate public interest in our work, and suggest that members of the public find our work relevant to their needs and interests. In 2011/12, 206 individual reports were downloaded 17,194 times from our website. The most frequently downloaded report (1,773 times) was *An Audit of the Environmental Assessment Office's Oversight of Certified Projects*.

Exhibit 11: Top 10 most downloaded reports from www.bcauditor.com in 2011/12

Date tabled in Legislature	*Report title*	*Number of downloads from April 1, 2011 – March 31, 2012*
July 7, 2011	*An Audit of the Environmental Assessment Office's Oversight of Certified Projects*	*1,773*
February 16, 2012	*An Audit of the Ministry of Forests, Lands and Natural Resource Operations' Management of Timber*	*1,487*
October 27, 2011	*BC Hydro: The Effects of Rate-Regulated Accounting*	*1,101*
September 29, 2011	*Observations on Financial Reporting: Summary Financial Statements 2010/11*	*986*
June 30, 2011	*2010/11 Annual Report and 2011/12-2013/14 Service Plan*	*885*
December 7, 2011	*Effectiveness of BC Community Corrections*	*874*
July 12, 2011	*British Columbia Coroners Service*	*789*
June 23, 2011	*The Status of Enterprise Risk Management in the Government Ministries of British Columbia*	*741*
October 4, 2011	*Follow-up Report: Updates on the implementation of recommendations from recent reports*	*641*
December 2, 2011	*Summary Report: Results of Completed Projects*	*636*

Source: Google Analytics

The Office also shares concerns and commentary on government's Summary Financial Statements through our annual Observations on Financial Reporting publication. This report was viewed 986 times in 2011/12.

We offer an electronic notification service to inform subscribers when a report is published, to encourage them to view reports of interest to them. As of April 2012, there were 873 subscribers to this service – an increase of 50 per cent over the total in April 2011 (581 subscribers). (To subscribe to the Auditor General's email notification service, visit www.bcauditor.com.) Advisories and news releases are also sent to media outlets as part of the report release process, to direct media to our website and encourage the use of supplementary materials, as well as, the full reports.

In addition, the Office produces resources such as guides and information bulletins to explain often complex topics to our stakeholders. In 2011/12, we published Understanding Public-Private Partnerships and Unqualified Audit Opinions Are Important: A Discussion on the 2009/10 Qualified Audit Opinion on B.C.'s Summary Financial Statements. Our resource publications were downloaded 3,361 times in 2011/12.

In October 2011, we began posting video presentations summarizing our reports on YouTube and our website. By March 31, these videos had been viewed 1,357 times (Exhibit 12). The most viewed video was *BC Hydro: The Effects of Rate-Regulated Accounting* (posted October 27). New formats, including social media, help us reach our stakeholders and make our findings more accessible to all British Columbians.

Exhibit 12: Views of report video presentations on YouTube.com, 2011/12

Date posted	*Report*	*Views as of March 31, 2012*
October 27, 2011	*BC Hydro: The Effects of Rate-Regulated Accounting*	*527*
February 14, 2012	*An Audit of the Ministry of Forests, Lands and Natural Resource Operations' Management of Timber*	*469*
December 2, 2011	*Summary Report: Results of Completed Projects*	*175*
December 7, 2011	*Effectiveness of BC Community Corrections*	*171*
March 30, 2012	*Follow-Up Report: Updates on the implementation of recommendations from recent reports*	*15*

Implementation of Recommendations

For our work to be relevant, our reports must make useful recommendations that can be implemented to improve government's performance. We monitor the implementation of our reports' recommendations by asking audited organizations to provide us with a self-assessed progress update six to 12 months after the report is published. (For more information on the follow-up process, click here.)

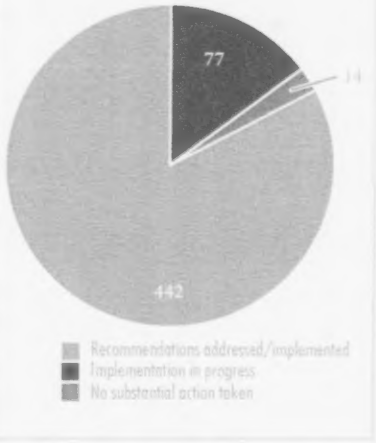
Our most recent follow-up report, published in March 2012, included self-assessments on 11 of our previous audit reports. We also track the implementation of all recommendations in the Office's follow-up reports since October 2008 (see Appendix B). We expect most recommendations to be addressed by the time of the first follow-up review. However, we recognize there are exceptions, and therefore do not expect 100 per cent of our recommendations to have been implemented in any one year. Some recommendations may take years to implement; for others, the organization may find alternative ways to address underlying issues.

Of the 533 recommendations included in our follow-up reports since October 2008, 83 per cent were assessed by the audited organization as having been addressed as of March 2012 (Exhibit 13).

Of those, 75 per cent were deemed to have been fully or substantially implemented and eight per cent were addressed through alternative action by the organization in question (see Appendix B). This high implementation rate both speaks to the dedication of the organizations and reinforces the relevancy of the Office's work in promoting effective, efficient and economical management in government.

The Office continues to follow up on recommendations that are only partially implemented or where no substantial action has been taken. For a projected schedule of the reports we anticipate following up on in the next 12 months, please see Appendix C.

Exhibit 13: Implementation status of the 533 recommendations included in our follow-up reports, October 2008–March 2012



VALUE

Definition

The most meaningful indication of the extent to which the Office adds value is from the perspective of MLAs and British Columbians. We recognize that value is highly subjective, especially in a politically polarized environment such as the Legislative Assembly.

Value is derived from producing audit opinions, reports and other information that :

1. are considered by MLAs and the entities we audit to be valuable, accessible and useful; and
2. meet professional audit and accounting standards. In other words, for our work to be valuable it must both promote efficient and accountable government and be useful to British Columbians' elected representatives in their work.

Targets and Performance

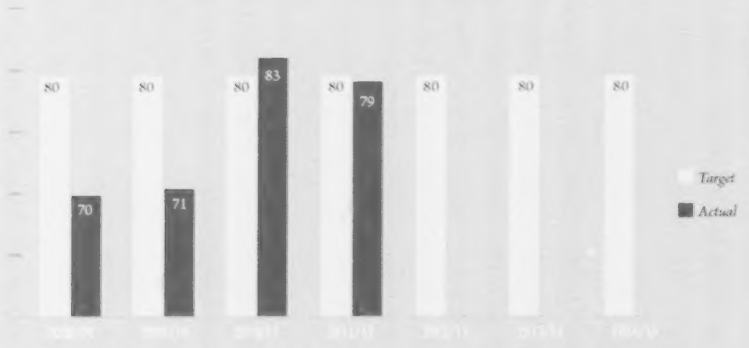
Key Performance Indicator

The Office's annual survey of all MLAs helps us measure the value we provide. This year, 38 of 84 MLAs completed the questionnaire.[7] This represents a valid response rate of 46 per cent (compared with 43 per cent in 2010/11).[8] Just over half of all respondents were members of government (58 per cent) and just under half were members of the official opposition or independent members (39 per cent). One member did not disclose his, or her, status (three per cent).

7 All 85 MLAs were invited to participate in the study. However, the Speaker of the House had requested in advance to be removed from the sample because of his non-partisan status. For this reason, the total sample size equalled 84.

8 The data provided in this report is valid to within ±12 per cent, at the 95 per cent confidence level. The results represent a snapshot in time as of April 2012. Changes in opinion could occur because of new work completed by the Office, a change in the official government and/or a change of actual MLAs.

Performance Indicator 2: Percentage of MLAs surveyed who believe the Office's work over the last year promoted efficient and accountable government



Source: Office of the Auditor General of British Columbia 2011/12 survey of MLAs.

Performance audit staff members from the Office, including Performance Audit Analyst Suzanne Smith, were given a tour of the Britannia Mine Water Treatment Plant as part of their audit fieldwork.

Our work often deals with contentious and challenging issues, so we do not expect our investigations or our findings to appeal to everyone. Nonetheless, the results from our survey of MLAs indicate to us how we can better provide value to legislators in the future.

Our 2011/12 survey found that 79 per cent of all MLAs who responded agreed that "the work done by the Office contributes to promoting efficient and accountable government." This is four per cent lower than for the same question last year (83 per cent agreed or strongly agreed), and is just under our target of 80 per cent. Of those who responded, four members of government disagreed with this statement, while 100 per cent of members of the official Opposition and Independent members agreed with it.

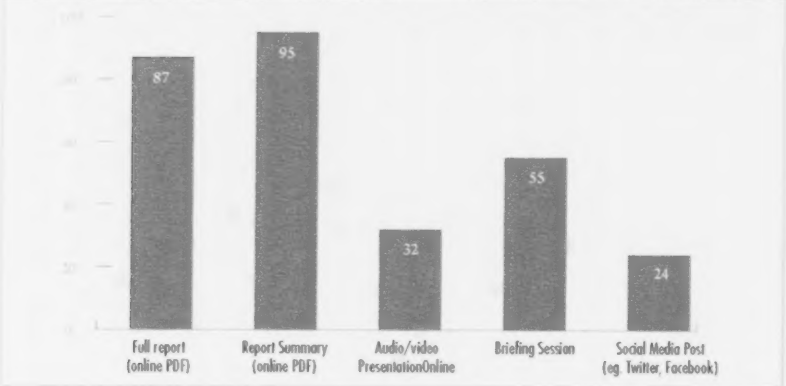
Looking Ahead

In 2011/12, the Auditor General had 27 meetings with individual MLAs in order to strengthen relationships with this stakeholder group. Feedback suggests that these visits help MLAs better understand the Auditor General's role. As part of the Office's public education efforts, the Auditor General will continue to meet with MLAs in the coming year.

We continue to review and improve our publication formats to better meet our stakeholders' needs and promote efficient, accountable government. In our 2011/12 survey, we asked MLAs for their input on which formats they would be most likely to access. Most MLAs indicated they would be "very" or "somewhat" likely to review a PDF report summary online (95 per cent) rather than formats such as social media posts, online audio/video presentations or briefing sessions (Exhibit 14).

Based on this survey feedback, we will consider publishing online PDF summaries of future work.

Exhibit 14: Percentage of MLAs surveyed who would be "very likely" or "somewhat likely" to access information from the Office in a given format



Other Indicators of Value

Useful Publications

For our work to provide value, our publications must be useful. We strive to make our work readable, comprehensive and relevant and have introduced a variety of new formats to enhance how we communicate the Office's work. In addition to the traditional audit reports, guides and brochures we published in the last year, we issued summary reports and compendiums.

We also completed numerous management letters, which are not public documents. Management letters tend to be technical documents with very detailed observations and, sometimes, recommendations. These detailed letters are often provided to the management of an entity on which an audit, review or investigation has just been completed. A brief summary report may be released publicly.

In our 2011/12 MLA survey, the majority of MLA respondents reported that they used the Office's products and services in their work as legislators, with 93 per cent of members of the official Opposition and Independent members agreeing with the statement.

When asked about the Office's reports, 82 per cent of respondents agreed that the publications clearly communicated key findings (no one disagreed), while 76 per cent agreed that the reports cover timely issues (two members of government disagreed).

We were pleased to see that all of the responding independent members and members of the official opposition agreed that overall they are satisfied with the Office's products and services. Two members of government disagreed with this statement.

"The Coroners Service is appreciative of the audit undertaken by the Office of the Auditor General and thanks the audit team for the respectful manner in which the audit was conducted and the thoroughness with which they reviewed our legislation, policies and practices. In-person interviews with staff in our regional offices were particularly appreciated, given the unique challenges faced by coroners in the province's rural areas. The recommendations presented in the report provide our agency with an opportunity to review past and current practices and look ahead to the future to ensure we continue to provide the government and citizens of B.C. with expert, compassionate death investigations and reviews."

– Lisa Lapointe, Chief Coroner, BC Coroners Service, in response to our report: *British Columbia Coroners Service*

"The Community Corrections and Corporate Programs Division appreciates the Auditor General's Audit of the Effectiveness of the BC Community Corrections. As a leader in the field of community corrections, the division values an informed review to enhance the effectiveness of the division's programs to improve public safety outcomes. The Community Corrections and Corporate Programs Division accepts the recommendations made by the Auditor General."

– the Ministry of Public Safety and Solicitor General in response to our report: *Effectiveness of BC Community Corrections*

Auditee Responses

We always invite the minister, deputy minister or other individual responsible for the audited organization to formally respond to our work as part of the report. These response letters usually indicate that he or she valued our work.

This year we also laid the groundwork for our Ministries' Information Portal, a password-protected, secure website for ministers and deputy ministers that provides them with up-to-date information on audit work we are conducting in their respective ministries. The website's purpose is to improve ongoing communications throughout the audit process.

Providing Value in Our Field

The Office welcomes opportunities to present and speak about our work to further its impact and value. In 2011/12, Auditor General, John Doyle and other representatives from the Office presented at numerous conferences and similar events, including the Canadian Council of Legislative Auditors (CCOLA) Performance Audit Symposium in Quebec City and an environmental law conference in Vancouver. We also presented to groups such as the Institute of Internal Auditors (IIA) and the Information Systems Audit and Control Association (ISACA).

We work with other legislative audit offices to share best practices and knowledge and provide value in our field. This year the Office hosted: the Auditor General of Yucatan, Auditor General of Canada, Sheila Fraser, the Executive of the Institute of Chartered Accountants of British Columbia (ICABC), the CCOLA Secretariat (Canada Wide), and Canadian Comprehensive Audit Foundation (CCAF) Fellows from Belize, Ghana and Kenya.

As well, three of our staff members participate in ICABC's volunteer self-regulatory and governance committees:

- Mike Macdonell, Assistant Auditor General for Quality Assurance, Strategies and Administration, is an elected member of ICABC's governing Council, a member of the Audit and Executive Committees, as well as ICABC's Treasurer;
- Russ Jones, Assistant Auditor General, Financial Audit, is a member of the Bylaws Committee, which is responsible for overseeing ICABC's rules; and
- Jason Reid, Executive Director of Financial Audit, is a member of the Practice Review and Licensing Committee, which is responsible for overseeing the regulation of members in public practice.

In June, the Office held a first-of-its-kind public outreach event with a class of grade five students from Doncaster School in Saanich. The students came to the Legislature on a field trip as part of their unit of study on government. After their tour of the Legislature, the Office of the Auditor General, in partnership with the Clerk's Office, hosted a model Public Accounts Committee (PAC) session for the students.

Auditor General John Doyle and Assistant Auditor General Morris Sydor presented the Office's 2010 report, *Conservation of Ecological Integrity in B.C. Parks and Protected Areas*. Performance Audit Manager Amy Hart represented the Ministry of Environment. The Chair (Performance Auditor Jessica Schafer) then called on the students, who were acting as PAC members from both the government and opposition parties, to ask questions of the government and the Auditor General.

Dear Mr. Doyle and Mr. Sydor,

Thank you for answering our questions about the parks report. I think you understood our questions very well. It was interesting listening to what you had to say in relation to your report. You made your job look fun and I really enjoyed the experience you gave us. Thank you for letting us in on your talk. I learned a lot.

– Danny (age 11)
Student at Doncaster School

Auditor General, John Doyle considers a question from a student.

Assistant Auditor General Russ Jones also sits on the Public Sector Accounting Board (PSAB), which serves the public interest by setting standards and providing guidance for financial and other performance information reported by the public sector.

In May, two performance auditors from Barbados finished their time with the Office as part of the CCAF Fellows Program. The CCAF is the foundation responsible for offering performance audit training to legislative auditors in Canada. It seeks out best practices in jurisdictions across Canada and internationally, and develops practical tools and concepts to strengthen accountability.

Representatives from the Office attended the CCAF Fellows Graduation in Ottawa. From left to right: CCAF Board Chair Ron Thompson; Victoria Sutherland of CIDA; Auditor General of Canada, Sheila Fraser; CCAF Fellow and 2011 Office guest auditor, Crasondra Harewood; His Excellency the High Commissioner of Barbados to Canada, E. Evelyn Greaves; the Office's Assistant Auditor General Sheila Dodds; the Office's Human Resources Executive Director Marc Lefebvre; and the Office's Performance Audit Director Mike McStravick.

Auditor General, John Doyle (top row, second from the left) at the regular meeting of the Australasian Council of Auditors-General (ACAG) and the Canadian Council of Legislative Auditors (CCOLA) with his fellow auditors general on the steps of Parliament House in Sydney, Australia.

Nigel Gibson, CCAF Fellow and 2011 guest auditor at the Office, receives his graduation certificate from Sheila Fraser, Auditor General of Canada.

EFFICIENCY

Definition

Efficiency drives the volume of work we generate and, by extension, the impact we exert. We are a public-sector entity and, therefore, the amount of work we can produce is constrained by the funding we receive. For 2011/12, we received total funding of $15.752 million. It is our responsibility to use our funding efficiently in order to produce maximum output.

Targets and Performance

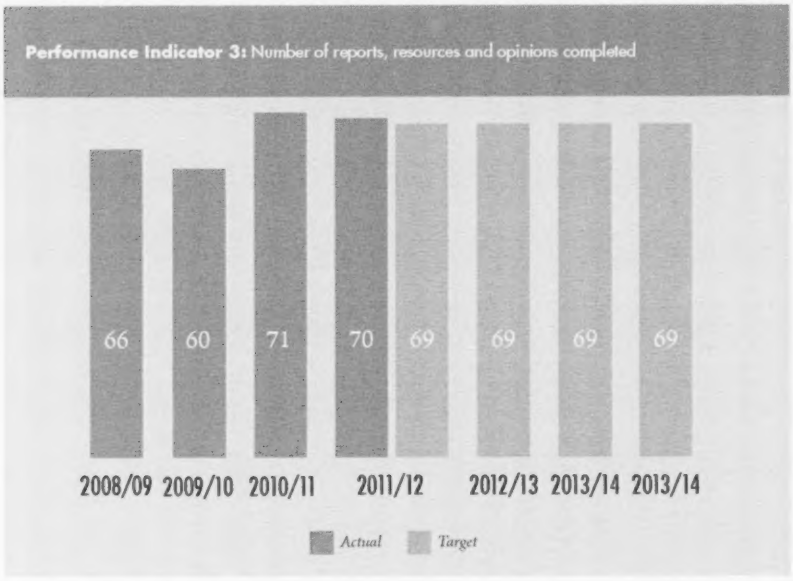
Key Performance Indicator

Our primary outputs are financial statement audit opinions and performance audit reports, reviews and guides. Assuming a relatively constant appropriation over time, the number of audit opinions and publications we produce is a broad measure of the Office's overall efficiency. The Office maintained similar full-time equivalent (FTE) staff counts in 2011/12 and 2010/11, with an average of 111 and 112 staff respectively. We continue to improve our project management and topic identification processes, as well as our use of staff resources.

In 2011/12, we released 70 reports, resources and opinions, thereby slightly exceeding our target total of 69.

These 70 reports, resources and opinions included 34 financial statement opinions, 11 opinions on compliance with agreements, two enrolment audits, one accountability report, one financial statement review, one audit of statement of expenditures, 18 performance audits or examinations, one guide and one information bulletin.

Performance Indicator 3: Number of reports, resources and opinions completed



Source: Office of the Auditor General of British Columbia management information system.

Looking Ahead

The number of publications the Office produces is strongly influenced by the types of projects we undertake. Generally speaking, performance audits tend to be significantly more expensive to complete than financial statement audits. As well, the time and resources required to complete a performance audit vary considerably depending on the subject and scope. Therefore, the number of performance audits we produce is limited by our appropriation and capacity.

To maximize efficiency in the coming year, our financial audit staff will be assigned to some performance audit projects based on their availability and level of experience. While this strategy necessitates additional employee training, it offers our financial audit staff the opportunity to expand their skill sets while also providing useful financial audit expertise to our performance audit teams.

Ada Chiang was honoured at the BC Public Service Agency's Long Service Awards. Ada has been with the Office for 26 years.

From left to right: Marc Lelièvre, Executive Director, Human Resources; Ada Chiang, Director, IT Audit; and Bill Gilhooly, Assistant Auditor General, Financial Audit.

Other Indicators of Efficiency

Responding to Public Queries and Audit Topic Suggestions

The Office of the Auditor General receives questions and audit suggestions by email, letter and through our website. In 2011/12, we received 259 such items of correspondence. The Office welcomes audit suggestions and queries from the public, and has a process in place to ensure that all suggestions for audit topics are reviewed by the Auditor General and his senior staff.

While some queries are addressed by staff, the Auditor General personally responds to most of these emails and letters. We track our response rate to monitor the efficiency of our internal processes and to ensure that those who take the time to write to the Office receive a response within a reasonable length of time. Because of the varying complexity of the correspondence we receive, we aim for an average response time of seven days. In 2011/12, our average response time was 5.6 business days.

EXCELLENCE

Definition

To the Office, excellence means ensuring that our professional staff complete their work to the highest standards and always strive for continuous improvement. We discuss excellence in terms of employee engagement, meeting professional standards and maintaining positive, professional relations with the organizations we audit.

Targets and Performance

Key Performance Indicator

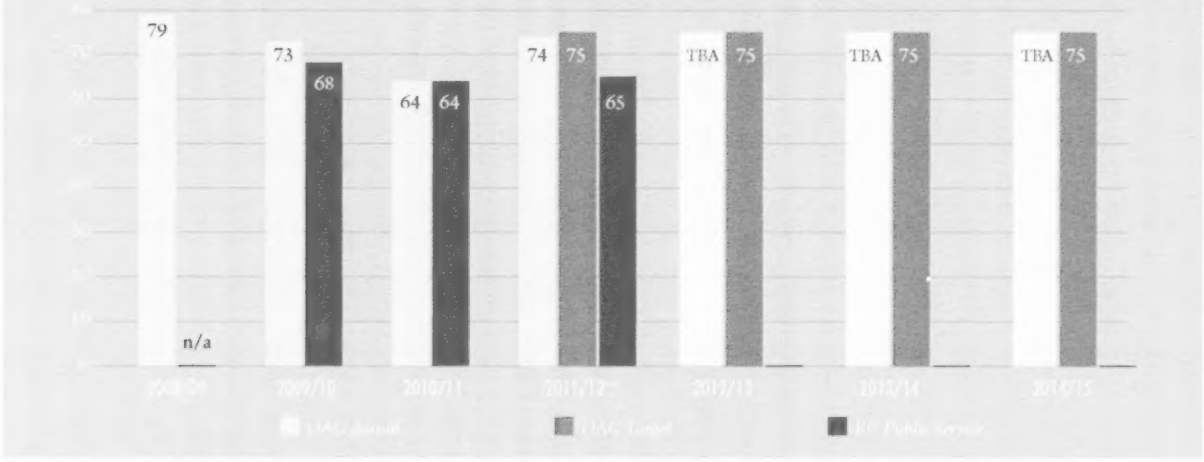
We undertake an annual work environment survey that covers key areas such as workplace values, leadership, pay and satisfaction.[9] To measure employee engagement, we track the percentage of our employee survey respondents who agree or strongly agree, with a number of statements including:

- I am satisfied with my job.
- I am encouraged to be innovative in my work.
- I am inspired to give my very best.
- I am proud of the work I do.

In 2009, we chose to move from our previous survey tool to the provincial government's standard work environment survey (WES) as a means of obtaining comprehensive data. Although our survey has been slightly customized to the Office, overall, it provides additional detailed feedback and allows comparisons to be made with the province's public sector as a whole.

The survey is sent electronically to all public sector staff in June each year. In 2011, 91 per cent of our OAG staff completed the survey (compared with 73 per cent in 2010).

Performance Indicator 4: Staff motivated and inspired ("engaged") by their work*



* Results are from the WES beginning in 2009.

** In the Office's 2010/11 Annual Report and 2011/12–2013/14 Service Plan, we measured this KPI using the engagement data collected just prior to the results' completion (June 2011). This report uses that same engagement score because it was collected during the 2011/12 fiscal year. In the future, we will use the engagement score collected in a report's fiscal year, in order to measure this KPI.

Source: BC Stats, Office of the Auditor General of British Columbia 2011 Work Environment Survey, September 2011

† Because confidentiality is critical for survey results to be valid, the survey is completed and information collected and analyzed by an external consultant. No individually identifiable information is provided to management.

Our team at the Times Colonist 10K, the Watchdogs, placed sixth out of 69 in the government teams category in 2011. Two of our team members placed in the top 100 men's and women's categories.

Exhibit 15: The four states of engagement

Source: Source: BC Stats, Office of the Auditor General of British Columbia 2011 Work Environment Survey, September 2011

Looking Ahead

Work engagement score targets can be challenging to meet and, as with many of our other targets, we often set stretch goals to challenge ourselves. Looking back over the past five years, we are very pleased with the strong results and the high level of staff engagement in the Office. According to BC Stats, an engagement score of 60 represents an engaged workforce. Our stretch target of 75 represents our desire to be a highly engaged organization (Exhibit 15), and is higher than the typical engagement score in the province's public service (65 in 2011).

We will continue to strive for high employee engagement, which is a predictor of a high-performing organization. All of the Office's work is done through people and a high level of work engagement is critical. We have undertaken a number of strategies to encourage employee engagement, which are detailed in the "2012/13–2014/15 Strategic Plan" section of this report (see page 31).

Other Indicators of Excellence

Training Future Chartered Accountants

The Office is licensed by the ICABC as a Chartered Accountant Training Office (CATO) to train students in obtaining their Chartered Accountant (CA) designation. We are proud to have supported student audit associates in this role for over 30 years, and we take pride in providing an excellent training ground for these professionals.

We have 20 audit associates in various levels of training. Last September we welcomed five new audit associates to begin their three-year program of study to gain their CA designation. In September 2011, three associates were successful in writing the Uniform Final Examination (UFE, the final exam for designated Chartered Accountants). Stefanie Singer, Senior Audit Associate, was one of eight Chartered Accountant students in British Columbia who earned a place on the National Honour Roll.

The final step for audit associates in pursuit of their CA designation is completing their 30 months of required work experience. We anticipate that 10 audit associates will write the UFE in September 2012 (six more than in 2011).

The Office congratulates our 2011 Uniform Final Examination (CA exam) graduates.

From left to right: Roman Aujla, Stefanie Singh, Auditor General John Doyle and Shaun Behan.

Professional Development

The Office supports our staff members' professional development to build our internal capacity and be an excellent employer. To this end, we have entered into exchange and secondment agreements with other legislative audit offices. In 2011/12, two of our auditors went to Australia, and we hosted two auditors: one from Western Australia and one from the Victoria Auditor General's Office (Australia).

Financial auditors and one manager from the Office were seconded to three different government offices during 2011/12. We continue to negotiate exchange opportunities for our staff.

Auditee Feedback

The Office strives to maintain positive, professional relationships with the entities we audit. Following our formal audits, we conduct a short survey to request feedback about our audit teams' performance. The survey is sent directly to staff and senior management at the audited organization, and the results provide our auditors with valuable information. In 2011/12, we surveyed 126 individuals and received 96 responses.

Exhibits 16 and 17 show two sets of compiled results from the performance survey we conducted in 2011/12.

Exhibit 16: Performance survey results, 2011/12: "The audit team demonstrated an objective attitude"

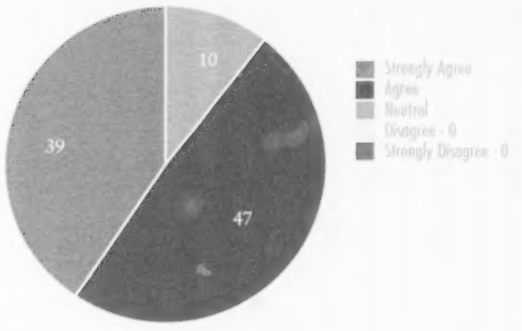
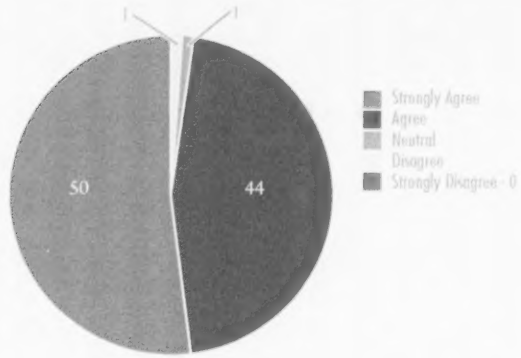


Exhibit 17: Performance survey results, 2011/12: "The audit team conducted themselves professionally"



AUDIT AREAS OF INTEREST IN 2012/13

Outcome Focus over Process Focus

Government programs are put into place to accomplish certain ends. By focusing on how well government programs achieve stated ends, as opposed to the process of achieving them, the Office can target the issues of greatest importance.

A number of our audits have highlighted a gap between stated government aims and the resources provided to achieve them. By focusing on the actual results achieved rather than on the resources, we avoid commenting on the adequacy of budgets – which would be intruding into policy. Instead, we foster debate about government's priorities.

Long-term Impacts

Long-range planning by the Province is a significant issue for the Office. Specifically, we are interested in determining how decisions made today will affect the province over the long term. Topics we consider pertinent for planning our future work include:

- alternative service delivery (ASD) arrangements;
- public-private partnerships;
- demographic shifts and capacity planning in sectors such as health care and education;
- financial administration;
- resources and energy; and
- governance.

As part of our stated mission to serve the people of British Columbia and their elected representatives, we will continue to add value by helping citizens understand complex issues (e.g. public-private partnerships). To this end we have developed publications in addition to traditional audit reports, including guides, management letters and summary reports, brochures and information bulletins.

THE AUDIT LEARNING NETWORK

The Office has undertaken a significant project – the Audit Learning Network (ALN) – to review and enhance performance audit guidance, processes and methodology for the benefit of our staff and the larger audit community.

The ALN is an online performance audit training website that will connect and support public sector performance auditors from coast to coast. Initially developed by the Office in 2011/12, the aim of this multi-year project is to provide auditors with access to guidance, learning tools, templates, online learning and community forums. These resources will be of particular help to audit supervisors and engagement leaders seeking to develop and expand their audit capacity by learning from, and interacting with, the broad audit community.

The ALN is an important way for the Office and British Columbia to maintain our leadership roles in performance audit and performance audit methodologies. As part of the initiative, the Office is currently exploring options to share the development costs with other legislative offices. We expect the ALN to continue to grow, as it attracts more Canadian and international partners in coming years.

Governance and Accountability

Good governance is an area of ongoing interest for the Office and is important for every public-sector organization, from ministries and Crown agencies to health authorities and school boards. Many of government's programs and services also span organizational or jurisdictional boundaries and thus require good governance if they are to be delivered seamlessly.

The Office first conducted a study of Crown agency governance in 1996. The report recommended that government review the current governance system and develop a model to promote good governance. In 2008, we published guidance on best practices to educate public-sector agencies about implementing good governance principles: *Public Sector Governance: A Guide to the Principles of Good Practice* is available on our website.

In 2011/12, to build on this work and assess the public sector's progress in implementing good governance principles, we examined board governance structures and practices in four Crown agencies. The resulting report, *Crown Agency Board Governance*, was published in May 2012.

The Office will conduct additional governance examinations in the future to identify further opportunities for improved governance at the organization level and to assess whether there are issues that require coordinated action by central government. We will also consider undertaking future work regarding the appointment process for Crown agency board members.

Major Investments

Closely related to long-range planning is the economy, efficiency and effectiveness of major investments in infrastructure. Some of these investment projects are highly visible, such as bridges; others are entirely behind the scenes, such as IT systems. Either way, the risks can be substantial because the products are complex, costly and developed over several years.

The Office can play a valuable role in helping citizens understand these complex investments. Citizens should be informed about whether project budgets and deliverables have been or are being well managed. This suggests we have a role not only after projects are completed but also during the time that plans and critical decisions are being made.

Flexibility and Interconnectedness

While it is essential for us to have plans in place to make best use of the resources entrusted to the Office, we cannot foresee every turn of events. We, therefore, need to remain responsive and adaptable.

New priorities inevitably emerge through either specific audit requests or the unfolding of unexpected events.

New challenges also arise, as do new opportunities. Our aim is to remain flexible so that we can tackle any of these changes quickly. We believe that our focus on shorter-term projects, and greater coordination of staff from all portfolios across the Office, will make us an increasingly more flexible organization in the years ahead.

PROFESSIONAL STANDARDS

The *Auditor General Act* requires the Auditor General to conduct financial statement audits "in accordance with generally accepted auditing and assurance standards." Our performance audits are also conducted in accordance with these standards.

All of our audit files are subject to multiple levels of internal review to ensure, among other things, compliance with audit standards. The audit files of private auditors providing services under contract are reviewed similarly.

We have a small professional practices department to ensure that our audit practices, methodology and training comply with current standards and that we are prepared for new requirements as they evolve. This department has been particularly busy over the past few years as the Canadian accounting profession undergoes significant changes.

For example, members of the department continue to work closely with our audit teams in implementing new Canadian audit standards that came into effect last year. As well, they are implementing an audit process for auditing the transition to new accounting standards that are underway in several public-sector organizations.

Looking to the future, the Office has committed to ongoing improvements of its audit methodologies for both performance and financial statement audits, thus ensuring that we continue to conduct our work as effectively and efficiently as possible.

AUDIT OF SPECIAL INDEMNITIES

In 2011, the Office began an audit to determine the effectiveness of the system governing the granting of special indemnities by the Province to individuals under the *Financial Administration Act*, but outside a formally established and approved government policy. 'Special indemnities' refer to instances where government has voluntarily granted an indemnity to cover legal expenses arising in relation to conduct that has occurred in the course of an individual's employment, office or appointment where that individual was not eligible for coverage under established policy.

As of March 31, 2012, completion of this audit had been delayed pending resolution of the Auditor General's Petition to the Supreme Court of British Columbia concerning the Auditor General's access to certain information and documents. This is the second audit within a year for which the Office of the Auditor General has had to file a petition to obtain audit records.

NEW ACCOUNTING AND FINANCIAL STANDARDS

Accounting standards in Canada are changing and virtually every organization that produces publicly accountable external statements will be transitioning to a different reporting framework, if they have not already done so.

The Province of British Columbia has directed most government organizations to adopt the accounting standards issued by the Public Sector Accounting Board of Canada (PSAB). The only exceptions apply to Government business enterprises (that is, those enterprises that generate their own revenues in sufficient amount to be able to operate independently without government support), which will adopt International Financial Reporting Standards.

The government has directed that the move to PSAB standards must occur in two main phases:

- Government organizations in the health or education sectors must adopt PSAB standards in their fiscal year that begins on or after January 1, 2012.
- All other government organizations had to adopt PSAB standards in their fiscal year that started on or after January 1, 2011.

Government has also directed government organizations to follow PSAB standards without the incorporation of the optional not-for-profit provisions that are now within the PSAB Handbook.

When PSAB standards are adopted for the first time, an organization is required to adopt them retroactively and to present an opening statement of financial position as at the date of transition. An organization that is not in the health or education sector has adopted PSAB standards in its year-end March 31, 2012 (assuming a March 31 year end) will be required to present an opening balance sheet as at April 1, 2010.

These changes are unprecedented in the province, and require significant effort by government organizations to prepare for and implement. To assist these organizations in transitioning to the PSAB framework, we have created two documents:

- model financial statements, which are examples of the type of financial statement presentation and disclosures required under PSAB standards; and
- a summary comparison between PSAB standards and the former CICA handbook standards that many government organizations currently use, with an explanation of the differences.

Our staff prepared these documents in consultation with standard setters and several large private-sector audit firms. These documents have now been provided to auditors general across Canada and are being translated into the French language by the Office of the Auditor General of Canada.

As PSAB standards are updated, we will continue to update our documentation. Current versions and more information on the changes to the accounting standards are available on our website at www.bcauditor.com/modelfinancial-statements

While we have implemented these new standards for financial statement audits, Canadian standards for other assurance engagements have not changed and are not changing in the short term. However, these other standards are being reviewed in Canada and internationally; these reviews will likely lead to changes in the long term.

Together, all of these changes will increase the quantity of work (and costs) for both the Office and the private-sector audit firms that audit government entities.

The Office celebrated its staff in November 2011 at an awards ceremony at Government House.

From left to right: Performance Audit Assistant Manager Laura Pierce; Performance Auditor Jessie Carson; and Performance Audit Analyst Sarah Riddell. Laura received the Auditor General Award, and Jessie was recognized with the Emerging Leader Award.

HUMAN RESOURCES

Succession Planning

More than one in four of the Office's staff is under the age of 30, with 50 per cent under the age of 35. The average age is currently 38. In five years, the average age is expected to increase to 40 and the proportion of staff over 50 years of age is expected to increase to 24 per cent from 19 per cent.

About 10 per cent of our staff are either eligible (or are close to being eligible) to retire. While demographic/retirement pressures are shared by both the BC Public Service and the Office, we face the additional challenge of higher turnover due to the competitive external marketplace for accountants, as well as their portability to the private sector and other government jobs. We anticipate that about half of our 2012 office staff will remain in 2022. Approximately one-third of existing staff may leave in five years. Although the Office does not expect its number of staff to increase from 2012 through 2022, we may have to hire 94 new employees over the next 10 years just to keep up with regular attrition and forecasted retirements.

As a result, leadership and supervisory skills, along with a knowledge-sharing strategy, have become even more critical. In 2010/11, the Office introduced the Program for Accelerated Leadership (PAL), a leadership program predominantly for assistant and senior managers making the transition to roles that require greater leadership. The program includes group workshops along with individual evaluation and coaching.

The Office continues to emphasize the management of employee performance and to provide career development tools.

Recruitment

The Office's succession plan strategy is to develop talent internally. Consequently, almost half of the Office's current workforce has been hired in the last three years to address vacancies and implement this sustainable staffing model.

To attract new staff, the Office is establishing a strong profile as a competitive and attractive employer. We are doing this by increasing our marketing and recruiting efforts, modernizing and improving hiring practices, establishing competitive employment packages and forming partnerships with professional associations and post-secondary institutions. In 2011/12, the Office hired 14 full-time staff including four co-op students, two of whom returned to the Office as auxiliary employees to help meet our operational needs. The number of executive-level staff has grown temporarily to add needed skill-sets and prepare for impending retirements. This includes the addition of three assistant auditors general.

Audit recruitment challenges have prompted us to focus on developing our own newly designated accountants who have acquired auditing skills. This will have a long-term strategic influence on our office culture and retention rate, and requires that we have entry-level hiring every year.

Staff on Leave

Our staffing model has also led to a younger workforce. As a result, the Office has seen an increasing number of staff taking maternity and parental leave. In 2011/12, 10 per cent of staff took such leave. In 2012/13, the Office should experience the full productivity benefits and cost effect of those individuals returning to work.

Training and Professional Development

Continuous training and development opportunities result in increased productivity, motivation, knowledge and retention. Furthermore, training and development are integral to the Office's key performance indicator of 'excellence.'

We encourage excellence in our staff by promoting mobility and new work experiences, supporting employee learning and career development, carefully managing the use of external resources, developing expertise in specific job streams and creating entry-level positions for the next generation of staff.

Curriculum development will be a core focus for the Office over the next three years as we update the curriculum to reflect the new core competency framework and address requirements identified through our needs analysis process.

We have updated our training approach to make it more "blended." Investments in eLearning and different classroom styles of learning and development have increased the educational and cost effectiveness of training.

The average staff member, not including audit associates, received approximately 45 hours of in-house training and development in 2011/12. Much of this can be attributed to the changes in accounting standards, which required our financial auditors to undertake significant training.

Professional Development Exchanges

Two of our employees were in Melbourne, Australia in 2011/12 as part of our reciprocal arrangement with the State of Victoria's Office of the Auditor General. We also initiated a process for audit staff to volunteer for an exchange program either with Western Australia or other Australian states. We received two staff from Western Australia and hosted a professional from Melbourne for six weeks.

In addition, we actively engage with local area offices to create short-term assignments for our staff. In 2011/12, one of our senior financial auditors was seconded to BC Pension Corporation, and one of our senior performance auditors participated in our ongoing secondment placement with the RCMP. We see these placements as opportunities to provide staff with a wider range of career experiences and development without compromising their independence.

INFORMATION TECHNOLOGY

Emerging technology needs continue to be a factor for the Office. The Office is working toward an integrated records management system and anticipates its introduction in 2012/13.

Currently, we have a mobile workforce and we continue to look for more efficient ways for our staff to connect remotely to the Office. In the future, we will be looking at technologies that reduce our travel time for staff, including video conferencing.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section we discuss and analyze our business operations, including significant events that have affected our results and financial position for the year ended March 31, 2012 relative to last year and to the service plan published in June 2011. This discussion and analysis of our financial performance should be read in conjunction with our financial statements and related notes. These financial statements have been prepared in accordance with Canadian public sector accounting standards.

We have made forward-looking statements, including statements regarding our business and anticipated financial performance. These statements are subject to a number of risks and uncertainties and therefore actual results may differ from those expected in the forward-looking statements.

Financial and Business Highlights

The Auditor General's mandate is broad, covering audits not only of the Province's financial statements but also of government's performance reports and the delivery of specific programs and services. Through the Office's work, the Auditor General helps the public and the Legislative Assembly hold government to account for how it delivers programs and services to the people of British Columbia.

In 2011/12, the voted appropriation we received from the Legislative Assembly to fund our operations was $15.75 million. This amount reflects the estimated full cost of operations. The Legislative Assembly also approved a separate appropriation for capital expenditures of $250,000.

In 2011/12, the actual total cost of our operations was $15.74 million and our capital expenditures were $246,000. Our unused appropriation cannot be used in subsequent fiscal years. Exhibit 18 summarizes these high-level variances. Further details are provided in the remainder of this discussion and analysis.

Exhibit 18: Office expenditures compared to planned and prior year ($ thousands)

	Fiscal 2011/12 Planned	Fiscal 2011/12 Actual	Variance Planned to Actual	Fiscal 2010/11 Actual	Variance 2011/12 to 2010/11	Fiscal 2012/13 Planned
Salaries and Benefits	11,998	11,697	301	11,767	(70)	11,998
Professional services	1,062	1,711	(649)	951	760	1,193
Other expenses	2,692	2,336	356	2,450	(114)	2,561
Total operating expenses	**15,752**	**15,744**	**8**	**15,168**	**576**	**15,752**

Our greatest challenge in recent years has been attracting and retaining staff. To mitigate this challenge, the Office implemented a comprehensive staffing plan that has been successful to date. However, attracting and retaining new staff continues to be a challenge due to external market demand for accounting professionals, as well as internal pressures from pending retirements, as well as maternity and parental leaves. Salaries and benefits, along with professional service contracts, make up 85 per cent of our total operating expenses: as a result, changes or fluctuations in staff or in our resource mix can shift our financial position significantly from what was planned.

For fiscal year 2012/13, the Legislative Assembly reduced our previously approved appropration and, instead, approved an appropriation at $15.75 million. This level of funding allows us to maintain a staffing level of 115 employees and continue to provide competitive compensation. However, it does not allow us to consolidate our two offices into a more seismically sound building or to further develop financial and performance audit training and standards, as we explained in our estimate of resources.

Distribution of resources across the work we do

The Office has two lines of business: financial audit and performance audit. Our Financial Statement Audit Coverage Plan provides details on the planned financial audits that account for the majority of the Office's work. In 2011/12, 63 per cent of our resources were used in the conduct of financial audits and 37 per cent were used in the conduct of performance audits.

Exhibit 19: Distribution of the Office's expenditures across functions ($ thousands)

	Direct Costs*	Indirect Support Costs**	Overhead Allocation***	Total Expenditures	%
Financial Audit	5,089	3,960	905	9,954	63%
Performance Audit	2,917	2,354	519	5,790	37%
	8,006	**6,314**	**1,424**	**15,744**	**100%**

* "Direct costs" include costs directly related to specific audits such as travel, report publications, contract services and specialized training.

** "Indirect costs" include all support activities directly required to conduct audits such as information technology, core training and professional development.

*** "Overhead" includes items such as office financial services and corporate professional services.

Resources used to staff the work we do

In 2011/12, our staffing plan was to increase our staff complement to 115 and maintain that total. With attrition, the average full-time equivalent (FTE) rate for 2011/12 was 111: one less than the prior year. Our actual spending on salaries and benefits in 2011/12 was $301,000 less than planned and $70,000 less than in the prior year, which corresponds with the reduction in the FTE number.

Exhibit 20 shows comparative figures for planned, actual and prior year spending for salaries and benefits along with related FTEs.

Exhibit 20: Year over year planned and actual staff expenditures with associated FTEs ($ thousands)

	Fiscal 2011/12 Planned	Fiscal 2011/12 Actual	Variance Planned to Actual	Fiscal 2010/11 Planned	Fiscal 2010/11 Actual	Variance 2011/12 to 2010/11 Actual
Salaries and Benefits	11,998	11,697	(301)	11,864	11,767	(70)
FTEs	115	111	(4)	115	112	(1)

The Office's succession and staffing strategy for the past few years has been to increase the number of audit associates and provide long-term training and development to prepare them for more senior financial audit positions. As a result, associates have accounted for approximately 18 per cent of the Office's employees in the past year.

In 2011/12, approximately 10 per cent of the Office's employees were on maternity or parental leave for part or all of the year. Not all of the temporarily vacant positions were filled during the maternity and parental leaves, which contributed to a portion of the variance.

Leave liability costs and associated benefits are also included in the salary and benefits expenses. The Office encourages staff to take their earned vacation: in addition to benefiting our employees' well-being, vacation time has further reduced the Office's leave liability costs.

The under-spend in salaries and benefits is partially linked to the overspending in professional services. In 2011/12, we spent $649,000 more than we had planned on professional services, and $760,000 more than the prior year. Of the increase over the 2010/11 year, 29 per cent of this cost was directly related to audit work.

Exhibit 21 shows the professional service expenditures we incurred to augment our audit work and our corporate activity requirements during 2011/12.

Exhibit 21: Distribution of professional services expenditures, 2011/12 ($ thousands)

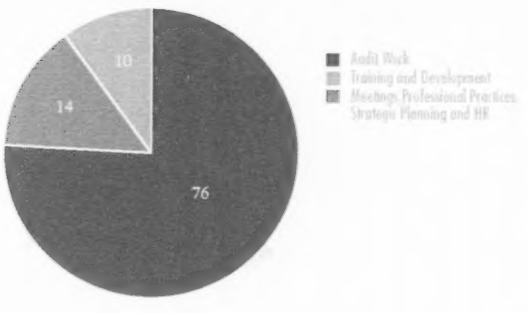
		2011/12	2010/11	Variance
Audit Work	Financial Audit Contractors	30	68	(38)
	Fees to Audit Firms	586	492	94
	Audit Consultants	187	25	162
	Audit report editing	13	14	(1)
		816	**599**	**217**
Indirect Audit Support	Human Resources	43	17	26
	Information Technology	141	79	62
	Training	492	176	316
		676	**272**	**404**
Corporate Activities	Financial and Audit	27	25	2
	Office Services	44	12	32
	Legal Services	146	42	104
	Corporate Report Editing	2	1	1
		219	**80**	**139**
Total Professional Services Expenses		**1,711**	**951**	**760**

The Office increased the amount of training delivered through dedicated sessions, which resulted in a significant increase in training-related professional services. There was also an increase in contract services related to corporate activities because the Office experienced increased legal costs in 2011/12 (see "Audit of Special Indemnities" in the strategic plan, page 33).

How our audit staff spends their time

In 2011/12, our audit staff spent 76 per cent of their available time on work directly related to audit projects and an additional 10 per cent of their time engaged in mandatory training and professional development. Many of our employees are also involved in strategic planning, professional practice activities, human resource recruitment activities and Communities of Practice in various specialty areas. Staff members participate in internal committees such as our Health and Safety Committee, Green Team, Wellness Committee and IT Advisory Committee, all of which are essential in maintaining a positive work environment and ensuring excellence in how we do our work.

Exhibit 22: Distribution of audit staff hours, 2011/12



Resources used to support our staff

In 2011/12, we spent $2.34 million on office and support infrastructure required to carry out the Office's work. Total office and support expenses included both indirect audit support and overhead; these expenses were less than our planned budget by $356,000, with an $114,000 increase over the prior year's spending.

Exhibit 23 shows the major elements of these expenses and provides a comparison of actual over planned and prior year expenditures.

Exhibit 23: Comparison of the Office's planned, actual and prior year office and support expenses ($ thousands)

	Fiscal 2011/12 Planned	Fiscal 2011/12 Actual	Variance Planned to Actual	Fiscal 2010/11 Actual	Variance 2011/12 to 2010/11
Occupancy costs	736	777	(41)	676	101
Travel	537	418	119	470	(52)
Information Technology	391	411	(20)	418	(7)
Professional Dues and Training	493	181	312	331	(150)
Office Expenses	220	291	(71)	304	(13)
Amortization	152	160	(8)	135	25
Report Publications	100	30	70	42	(12)
Research Grants	63	68	(5)	74	(6)
	2,692	**2,336**	**356**	**2,450**	**(114)**

Occupancy costs increased over the prior year due to some workspace improvements in 2011/12. Travel costs decreased in 2011/12 because the Office did not perform a large audit in Vancouver that had been conducted the year prior.

Maintaining the highest professional standards and excellence when we perform our work requires that our staff remain current with professional standards. We commit funds for this purpose, and also provide staff with opportunities for growth and development. Last year we spent over $673,000 in professional dues and training courses for our staff, including $492,000 for professional services training fees and $181,000 for professional dues and external training courses.

The investment in training and our staffing strategy continue to show results. This year, one of our audit associates successfully completed their Uniform Final Exam (UFE)[10] with honours. Our success is shared by the rest of the public service, as some newly qualified associates leave the Office to work elsewhere in the public service.

10 The UFE is a comprehensive exam at the conclusion of formal studies. Successful completion is required for someone to become a designated Chartered Accountant.

A glance at our past and a look into our future

Financial trends for the past five years, along with our 2012/13 planned expenditures, are shown in Exhibit 24.

The Office had an average of 111 full-time employees (FTEs) in 2011/12, including auxiliary and co-op staff. This is one less FTE than in the prior year and is near our goal of 115.

The Office continues to experience pressures related to technology changes and audit methodology developments. To ensure the Office can continue to conduct its work effectively and efficiently, technology and training costs will continue to be the largest combined operating expense in the upcoming year.

Improvements are still required to make more efficient use of available office space and replace aging building infrastructure. The Office's ability to complete improvements will be limited in the upcoming fiscal year due to the approved appropriation.

The Office's current leases expire in 2014 and we continue to explore accommodation options. In addition to occupying a seismically safer building, we expect to gain efficiencies if we are able to move from two offices to a building large enough for all our staff. We expect one-time moving and tenant improvement costs in addition to increased lease rates.

Exhibit 24: Year-over-year financial trends in the Office, 2007/08-2012/13 ($ thousands)

	Planned	Actuals for Fiscal Years (ending March 31)					Line Items (as a percent)				
	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2011/12	2010/11	2009/10	2008/09	2007/08
Operating Expenses							As a % of Total Operating Expenses				
Salaries	9,294	9,141	9,289	8,659	7,795	6,557	58.1	61.2	56.6	54.8	53.4
Employee Benefits	2,704	2,556	2,478	2,414	2,271	1,634	16.2	16.3	15.8	15.9	13.3
Professional Services	1,193	1,711	951	1,360	1,597	1,816	10.9	6.3	8.9	11.2	14.8
Occupancy Costs	713	777	676	857	634	696	4.9	4.5	5.6	4.5	5.7
Travel	537	418	470	503	513	408	2.7	3.1	3.3	3.6	3.3
Information Technology	391	411	418	481	545	354	2.6	2.8	3.1	3.8	2.9
Professional Dues and Training	492	181	331	373	258	237	1.2	2.2	2.4	1.8	1.9
Office Expenses	171	291	304	412	289	318	1.8	2.0	2.7	2.0	2.6
Amortization	207	160	135	136	158	139	1.0	0.9	0.9	1.1	1.1
Report Publications	50	30	42	46	121	59	0.2	0.3	0.3	0.9	0.5
Research Grants	-	68	74	63	63	63	0.4	0.5	0.4	0.4	0.5
Total Operating Expenses	**15,752**	**15,744**	**15,168**	**15,304**	**14,244**	**12,281**	**100%**	**100%**	**100%**	**100%**	**100%**
Appropriation and other amounts	15,752	15,752	15,400	15,536	15,250	10,350					
Fee-for-service recoveries		-	-	-	-	(2,205)					
Unused appropriation	-	(8)	(232)	(232)	(1,006)	(274)					
Capital expenditures	280	246	149	185	131	156					
Average (FTE) usage	115.0	111.2	111.6	111.9	96.4	86.5					

OUR FINANCES

STATEMENT OF MANAGEMENT RESPONSIBILITY

The accompanying financial statements of the Office of the Auditor General are the responsibility of management.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise, since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances to ensure that the financial statements are presented fairly in all material respects.

We have developed and maintain systems of internal control that give reasonable assurance that the Office has:

- operated within its authorized limits;
- safeguarded assets; and
- kept complete and accurate financial records.

The Select Standing Committee on Finance and Government Services of the Legislative Assembly appointed Grant Thornton LLP, Chartered Accountants, to audit the accounts of the Office for the years ended March 31, 2012 and 2011.

John Doyle, MAcc, CA
Auditor General

Russ Jones, MBA, CA
Assistant Auditor General and Chief Financial Officer

Grant Thornton

Independent auditor's report

To the Speaker
The Legislative Assembly, Province of British Columbia

We have been engaged to report whether the 2011/12 Annual Report and 2012/13 – 2014/15 Service Plan (the "Annual Report") of the Office of the Auditor General of British Columbia (the "Office") for the year ended March 31, 2012 fulfills the requirements of the BC Reporting Principles. The eight BC Reporting Principles outline the characteristics of good performance reporting, and have been endorsed by the Legislative Assembly's Select Standing Committee on Public Accounts for use by public sector organizations in British Columbia. The principles are detailed in the appendix to this report. This Annual Report is the responsibility of the Office.

Auditor's responsibility

Our responsibility is to assess whether the Annual Report has met the requirements of the BC Reporting Principles. We conducted our audit in accordance with Canadian standards for assurance engagements and accordingly included such tests and procedures as we considered necessary in the circumstances. The conclusion in our report is based on procedures that we determined to be necessary for the collection of sufficient, appropriate evidence in order to obtain a high, though not absolute, level of assurance that the Annual Report fulfills the requirements of the BC Reporting Principles.

As called for by the BC Reporting Principles, the Annual Report contains a number of representations from management concerning the appropriateness of the goals, objectives, and targets established by the Office, explanations of the adequacy of planned and actual performance, and expectations for the future. Such representations are the opinions of management and inherently cannot be subject to independent verification. Therefore, our examination was limited to ensuring the Annual Report contains those representations called for by the BC Reporting Principles and that they are consistent with the audited performance information and audited financial statements.

Opinion

In our opinion, this Annual Report fairly presents, in all significant respects, the performance of the Office for the year ended March 31, 2012, in accordance with the BC Reporting Principles. The following appendix contains details supporting our conclusion for each of the BC Reporting Principles, and is an integral part of our opinion.

Grant Thornton LLP

Victoria, Canada
June 27, 2012

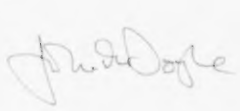
Chartered Accountants

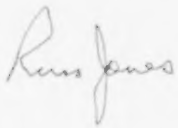
STATEMENTS OF FINANCIAL POSITION

(in $000s)

As at	Note	March 31 2012	March 31, 2011	April 1, 2010
Financial Assets				
Petty Cash		**2**	2	2
Due from Consolidated Revenue Fund	3	**1,299**	723	949
Total financial Assets		**1,301**	725	951
Liabilities				
Accounts payable and accrued liabilities		**1,397**	796	1,042
Total Liabilities		**1,397**	796	1,042
Net Debt		**(96)**	(71)	(91)
Non financial assets				
Tangible capital assets	4	**442**	356	342
Prepaid expenses	5	**96**	71	91
Total Non Financial Assets		**538**	427	433
Net Assets	6	**442**	**356**	**342**

Approved by:





John Doyle, MAcc, CA
Auditor General

Russ Jones, MBA, CA
Assistant Auditor General and Chief Financial Officer

Commitments (note 9)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS

(in $000s)

For the years ended March 31	Note	2012 Budget (unaudited)	2012 Actual	2011 Actual
	7			
Revenue				
Operating appropriation		15,752	**15,744**	15,168
Capital appropriation		250	**246**	149
Total revenue		**16,002**	**15,990**	**15,317**
Expenses				
Audit services	10	15,752	**15,744**	15,168
Total operating expenses		15,752	**15,744**	15,168
Excess of revenue over expenses before purchase of Tangible Capital Assets		250	**246**	149
Purchase of Tangible Capital Assets		250	**246**	149
Net cost of operations		-	-	-

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET DEBT

(in $000s)

For the years ended March 31	2012	2011
Acquisition of prepaid expenses	**(55)**	(9)
Use of prepaid expenses	**30**	29
	(25)	20
(Increase) decrease in net (debt) assets	**(25)**	20
Net (debt) assets at beginning of year	**(71)**	(91)
Net (debt) assets at end of year	**(96)**	(71)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(in $000s)

For the years ended March 31	Note	2012	2011
Operating transactions			
Paid to employees		**(11,387)**	(11,532)
Paid to suppliers		**(3,676)**	(3,597)
Miscellaneous Receipts	2	**56**	145
Cash used in operations		**(15,007)**	(14,984)
Capital transactions			
Acquisition of tangible capital assets		**(246)**	(295)
Appropriation for tangible capital assets		**246**	149
		-	(146)
Financing activities			
Current year appropriation		**15,583**	14,904
Increase (decrease) in due from consolidated revenue fund		**576**	(226)
Due from consolidated revenue fund, beginning of year		**723**	949
Due from consolidated revenue fund, end of year		**1,299**	723

The accompanying notes are an integral part of these financial statements.

Notes on the Financial Statements, Years ended March 31, 2012, March 31, 2011

1. Nature of Operations

The Auditor General is an Officer of the Legislature of British Columbia, appointed for a six year term by the Legislative Assembly. Non-partisan, objective and independent of the government of the day, he reports impartial assessments of government accountability and performance to the Assembly.

The Auditor General's mandate is established by the *Auditor General Act*. The *Act* requires the Auditor General to audit the government's annual Summary Financial Statements, and allows the Auditor General to be appointed as the financial statement auditor of any government organization or trust fund. The *Act* also allows the Auditor General to carry out examinations focusing, among other things, on whether government or a government organization is operating economically, efficiently and effectively; and whether the accountability information provided to the Legislative Assembly by the government, or a government organization, with respect to the results of its programs is adequate.

Funding for the operation of the Office of the Auditor General (the Office) comes from a voted appropriation of the Legislative Assembly.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards and reflect the following significant accounting policies.

a. *Conversion to Public Sector Accounting Standards*
On April 1, 2011, the Office adopted Canadian public sector accounting standards ("PSAS") as recommended by the Public Sector Accounting Board. These financial statements are the first financial statements for which the Office has applied Canadian public sector accounting standards.

b. *Legislative appropriations*
The Office is funded by the Legislative Assembly through a voted appropriation. The vote provides separately for operating expenses and capital acquisitions. Any unused appropriation cannot be carried forward for use in subsequent years.

c. *Miscellaneous receipts*
Miscellaneous receipts include the repayment of funds to the Office for expenditures made to employees and suppliers.
The Office also has seconded employees to other offices and received repayment of their salaries during the exchange.

d. *Financial instruments*
The Office has designated its financial instruments as follows:
Accounts payable and accrued liabilities as other financial liabilities and are measured at amortized cost.

Due from (to) consolidated revenue fund is classified as either loans and receivables or other financial liabilities and is measured at amortized cost.
It is management's opinion that the Office is not exposed to significant interest, currency or credit risk arising from these instruments.

e. *Tangible capital assets*

Tangible captial assets are recorded at historical cost less accumulated depreciation. Depreciation begins when the assets are put into use and is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware and software	3 years
Mainframe hardware and software	5 years
Furniture and equipment	5 years
Tenant improvements	the lesser of 5 years or term of lease

f. *Employee future benefits*

i) Pension benefits

All eligible employees participate in a multi-employer defined benefit pension plan. Defined contribution plan accounting has been applied to the plan as the Office has insufficient information to apply defined benefit plan accounting. Accordingly, the Office's contributions are expensed in the year in which the services are rendered, and represents its total pension obligation.

ii) Other future benefits

Eligible employees are entitled to post-employment health care and other benefits, as provided under terms of employment or collective agreements. The cost of these benefits is accrued as employees render the services necessary to earn them.

g. *Employee future benefits*

iii) Leave Liability

Eligible employees are entitled to accumulate earned, unused vacation and other eligible leave entitlements, as provided under terms of employment or collective agreements. The liability for the leave is managed and held by the BC Public Service Agency.

h. *Measurement uncertainty*

These financial statements are prepared in accordance with Canadian public sector accounting standards, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Provision for staff performance incentives, the supplemental executive retirement plan and estimated useful lives of tangible capital assets are the most significant items for which estimates are used. Actual results could differ from those estimates. These estimates are reviewed annually and, as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

3. Due from/(to) the Consolidated Revenue Fund

The Office does not have its own bank account or hold cash or cash equivalents. All financial transactions of the Office are processed through the Consolidated Revenue Fund of the Province of British Columbia. The "Due from (to) the consolidated revenue fund" balance represents amounts that the Office will receive from, or transfer, to the fund.

(tabular amounts in $000s)	March 31, 2012	March 31, 2011
Balance, beginning of year	723	949
Cash provided for operations	15,583	14,904
Cash provided from miscellaneous receipts	56	145
Cash provided for the acquisition of tangible capital assets	246	149
	16,608	16,147
Expenses during year:		
Paid to employees	(11,387)	(11,532)
Paid to suppliers	(3,676)	(3,597)
Paid for the acquisition of tangible capital assets	(246)	(295)
	(15,309)	(15,424)
Balance, end-of-year	**1,299**	**723**

4. Tangible Capital Assets

(tabular amounts in $000s)	Computer hardware & software	Mainframe hardware & software	Furniture & equipment	Tenant improvements	Total
Year Beginning April 1, 2010					
Cost	480	123	378	-	981
Accumulated depreciation	(421)	(78)	(140)	-	(639)
Net Book Value	59	45	238	-	342
Year ended March 31, 2011					
Opening net book value	59	45	238	-	342
Additions	131	-	18	-	149
Disposals	-	-	-	-	-
Depreciation charge	(52)	(17)	(66)	-	(135)
Closing Net Book Value	138	28	190	-	356
At March 31, 2011					
Cost	544	103	396	-	1043
Accumulated depreciation	(406)	(75)	(206)	-	(687)
Net Book Value	138	28	190	-	356
Year ended March 31, 2012					
Opening net book value	138	28	190	-	356
Additions	48	71	60	67	246
Disposals	-	-	-	-	-
Depreciation	(73)	(16)	(68)	(3)	(160)
Closing Net Book Value	113	83	182	64	442
At March 31, 2012					
Cost	394	174	456	67	1091
Accumulated depreciation	(281)	(91)	(274)	(3)	(649)
Net Book Value	113	83	182	64	442

The Office derecognized computer hardware totalling $198,000 that had been fully depreciated ($67,000 of computer hardware and $20,000 of mainframe hardware in 2011).

5. Prepaid Expenses

(tabular amounts in $000s)	March 31, 2012	March 31, 2011	April 1, 2010
Travel	7	4	6
Software maintenance	88	67	85
Other	1	-	-
	96	**71**	**91**

6. Net Asset Balance

The net asset balance represents tangible capital assets that have been funded through appropriations.

7. Voted, Unused and Used Appropriation

The Office receives approval from the Legislative Assembly to spend funds through an appropriation that includes two components—operating and capital. Any unused appropriations lapse at the fiscal year-end.

The budget shown on the Statement of Operations is based on the budgeted expenses that the Select Standing Committee on Finance and Government Services approved on December 8, 2010. The following table compares the Office's actual expenditures to the approved budgets:

Year ended March 31 *(tabular amounts in $000s)*	2012		2011	
	Operating	**Capital**	**Operating**	**Capital**
Appropriation (Vote 2)	15,752	250	15,400	150
Total appropriation available	15,752	250	15,400	150
Total operating expenses	(15,744)	-	(15,168)	-
Capital acquisitions	-	(246)	-	(149)
Unused appropriation	**8**	**4**	**232**	**1**

8. Employee Future Benefits

The Office and all eligible employees contribute to the Public Service Pension Plan, a multi-employer, defined benefit, and joint trusteeship plan, established for certain British Columbia public service employees. The British Columbia Pension Corporation administers the plan, including payments of pension benefits to eligible employees. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

The plan is contributory, and its basic benefits are based on years of service and average earnings at retirement. Under joint trusteeship, the risks and rewards associated with the Plan's unfunded liability, or surplus, is shared between the employers and the plan members and will be reflected in their future contributions.

Every three years an actuarial valuation is performed to assess the financial position of the pension plan and the adequacy of the funding. The latest actuarial valuation as at March 31, 2011 reported the fund was only 98 per cent funded.

During the 2012 fiscal year, it was determined that the Auditor General is entitled to a Supplemental Executive Retirement Plan. The plan provides an additional half year of pensionable service for each year worked.

The estimated accrued liability under the plan as at March 31, 2012 is as follows:

(tabular amounts in $000s)	**2012**
Accrued benefit obligation	
Balance, beginning of year	-
Current benefit cost	125
Balance, end of year	**125**

The significant actuarial assumptions adopted in measuring the accrued benefit obligation are as follows:

	2012
Discount Rate	6.5%
Expected future inflationary trends	3.75%

9. Commitments

The Office leases one photocopier under an agreement which expires in November 2015.

The Office has an accommodation agreement with the Ministry of Labour and Citizens' Services for occupancy of the space at 8 Bastion Square. The agreement expires October 2014. The Office also leases office space at 595 Pandora Street. This lease expires November 2014.

The Office incurred severance commitments in September 2010, October 2011 and January 2012, which expire in April 2012, September 2012 and October 2012 respectively.

Future minimum payments under the terms of the commitments as of March 31, 2012 are as follows:

Fiscal Year *(tabular amounts in $000s)*	**Commitment**
2012/13	743
2013/14	661
2014/15	391
2015/16	2
Total	**1,797**

10. Classification of Expense by Object

Year Ended March 31 *(tabular amounts in $000s)*	**2012**		**2011**
	Budget (unaudited)	**Actual**	
Salaries and benefits	11,998	11,697	11,767
Professional services	1,062	1,711	951
Occupancy costs	736	777	676
Travel	537	418	470
Professional dues and training	493	181	331
Information technology	391	411	418
Office expenses	220	291	304
Depreciation	152	160	135
Report publications	100	30	42
Research grants	63	68	74
	15,752	**15,744**	**15,168**

11. Related Party Transactions

The Office is related as a result of common ownership to all Province of British Columbia ministries, agencies, crown corporations and all other public sector entities. Transactions with entities are recorded on an accrual basis and are considered to be in the normal course of business and are measured at the exchange amount, which is the amount of consideration established, and agreed to by, the related parties.

12. Comparative Figures

Certain comparative figures in the financial statements have been restated to conform to the current year presentation. No changes in presentation to the March 31, 2011 or April 1, 2010 comparative figures were required, as a result of the Office's adoption of Canadian public sector accounting standards in the current year.

APPENDIX A: SUMMARY OF WORK ISSUED IN 2011/12

Financial Audits/Opinions

1. Summary Financial Statements of the Province of British Columbia Ministries including: Aboriginal Relations and Reconciliation; Advanced Education; Agriculture; Children and Family Development; Community, Sport and Cultural Development; Education; Energy and Mines; Environment; Finance: Forest, Lands and Natural Resource Operations; Health; Jobs, Tourism and Innovation; Justice; Labour, Citizens' Services and Open Government; Social Development; Transportation and Infrastructure

Colleges

2. Douglas College
3. Camosun College

School districts

4. School District 35 – Langley
5. School District 36 – Surrey
6. School District 38 – Richmond (contracted auditors)
7. School District 61 – Greater Victoria
8. School District 83 – North Okanagan - Shuswap

Universities

9. Simon Fraser University (contracted auditors)

Health authorities

10. Vancouver Island Health Authority
11. Infection Control: Essential for a Healthy British Columbian

Crown corporations and other government agencies

12. Community Living BC
13. BC Immigrant Investment Fund
14. BC Pavilion Corporation
15. BC Transportation Financing Authority
16. BCIF Management
17. BC Enterprise Corporation
18. BC Liquor Distribution Branch (contracted auditors)
19. BC Railway Company (contracted auditors)
20. BC Securities Commission
21. BC Transit (contracted auditors)
22. Columbia Power Corporation

    Subsidiaries of Columbia Power Corporation:

    23. Arrow Lakes Power Corporation
    24. Brilliant Power Corporation
    25. Brilliant Expansion Power Corporation
    26. Power Project Planning Joint Venture
    27. CPC Waneta Holdings

28. Forestry Innovation Investment
29. Industry Training Authority
30. Oil and Gas Commission
31. Pacific Carbon Trust
32. Transportation Investment Corporation

APPENDIX A: SUMMARY OF WORK ISSUED IN 2011/12

Other organizations and special reports

33. Office of the Representative for Children and Youth (audit of statement of expenditures)
34. Provincial Employees Community Services Fund
35. Oil and Gas Commission Science and Community Environmental Knowledge Fund
36. Langley School District Foundation

Advanced education/federal government labour market agreements

37. Statement of Revenue and Expenses – Labour Market Agreement
38. Schedule of Detailed Expenditure Claims – Targeted Initiative for Older Workers
39. Statement of Revenue and Expenses – Strategic Training and Transition Fund
40. Labour Market Agreement compliance report

41. BCTFA / federal funding agreements

42. Canada – British Columbia Building Canada Fund, Contribution Agreement for Core National Highway System Projects
43. Canada – British Columbia Asia-Pacific Gateway and Corridor Initiative
44. Canada – British Columbia Asia-Pacific Gateway and Corridor Initiative Transportation Infrastructure Component, South Fraser Perimeter Road
45. Canada – British Columbia Provincial-Territorial Base Funding Agreement Building Canada Infrastructure Plan
46. Canada – British Colombia Infrastructure Stimulus Fund 2009/2010–2010/2011
47. Canada – British Colombia Infrastructure Stimulus Fund 2009/2010–2010/2011 – Extended Projects
48. Canada – British Columbia Building Canada Fund Contributions Agreement for the British Columbia Transit Improvement Program 2009–2010/2016–2017
49. BCAA – annual report audit
50. Enrolment audit – Douglas College
51. Enrolment audit – Simon Fraser University

Performance audit reports

52. Follow-up Report: Updates on the implementation of recommendations from recent reports (April)
53. Audit of the Academic Ambulatory Care Centre Public Private Partnership: Vancouver Coastal Health Authority
54. The Status of Enterprise Risk Management in the Government Ministries of British Columbia
55. 2010/11 Annual Report and 2011/12–2013/14 Service Plan
56. An Audit of the Environmental Assessment Office's Oversight of Certified Projects
57. British Columbia Coroners Service
58. Observations on Financial Reporting: Summary Financial Statements 2010/11
59. Follow-up Report: Updates on the implementation of recommendations from recent reports (October)
60. BC Hydro: The Effects of Rate-Regulated Accounting

Summary Report: results of completed projects

61. Organizational Costing of Fee-Based Goods and Services
62. Family Maintenance Enforcement Program
63. Management of Student Loans
64. Managing for Results: Post-Secondary Accountability Framework Audit
65. Accountability for Special Education Services
66. Wireless Networking Security: Phase 3
67. Effectiveness of BC Community Corrections
68. An Audit of the Ministry of Forests, Lands and Natural Resource Operations' Management of Timber
68. Follow-up Report: Updates on the implementation of recommendations from recent reports (March)

Resources

69. Understanding Public-Private Partnerships
70. Unqualified Audit Opinions Are Important: A Discussion on the 2009/10 Qualified Audit Opinion on B.C.'s Summary Financial Statements

APPENDIX B: CUMULATIVE TOTALS OF RECOMMENDATIONS FROM OCTOBER 2008 TO MARCH 2012 FOLLOW-UP REPORTS

			Cumulative status of recommendations			
Report	Report Initially Released	Number of Recommendations in Report	Fully or Substantially Implemented	Alternative Action Taken	Partially Implemented	No Substantial Action Taken
Education						
Government's Post-secondary Expansion-25,000 Seats by 2010	Dec 2006	6	5			1
Literacy: Creating the Conditions for Reading and Writing Success	Feb 2008	8	7		1	
A Major Renovation: Trades Training in British Columbia	Nov 2008	11	10		1	
Planning for School Seismic Safety	Dec 2008	7	1		6	
Finance						
An Audit of Joint Solutions Procurement and the Revenue Management Project	Apr 2008	8	6	2		
BC Arts Council Grant Administration	Dec 2008	9	6		3	
Management of Working Capital by Colleges and School Districts	Aug 2010	4	3	1		
Managing Fraud Risks in Government	Aug 2010	1			1	
Infrastructure Grants	Aug 2010	5	5			
Year-End Government Transfer Expenditures	Aug 2010	3			3	
BC Hydro: The Effects of Rate-Regulated Accounting	Oct 2011	2			1	1
Environment						
Preventing Fatalities and Serious Injuries in B.C. Forests: Progress Needed	Jan 2008	15	9	5	1	
Removing Private Lands from Tree Farm Licenses 6, 19 & 25: Protecting the Public Interest? *	Jul 2008					
Oil and Gas Site Contamination Risks: Improved oversight needed	Feb 2010	9	9			
Conservation of Ecological Integrity in B.C. Parks and Protected Areas	Aug 2010	7	1	1	5	
Audit of the Agricultural Land Commission	Sep 2010	9			4	5
An Audit of the Management of Groundwater Resources in British Columbia	Dec 2010	7	1		6	

APPENDIX B: CUMULATIVE TOTALS OF RECOMMENDATIONS FROM OCTOBER 2008 TO MARCH 2012 FOLLOW-UP REPORTS

			Cumulative status of recommendations			
Report	Report Initially Released	Number of Recommendations in Report	Fully or Substantially Implemented	Alternative Action Taken	Partially Implemented	No Substantial Action Taken
Governance & Accountability						
Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos	Jul 2005	13	12	1		
British Columbia Audit Committees: Doing the Right Things	Dec 2006	2	2			
Financial Framework Supporting the Legislative Assembly	Apr 2007	4		4		
Strengthening Accountability in British Columbia: Trends and Opportunities in Performance Reporting	Apr 2008	5	5			
Public Participation: Principles and Best Practices for British Columbia	Nov 2008	1		1		
How Are We Doing? The Public Reporting of Performance Measures in British Columbia	Dec 2008	4	3		1	
British Columbia Crown Corporations Executive Compensation Arrangements: A Work in Progress	Nov 2009	8	7	1		
School District 35 - Langley	Dec 2010	9	3		3	3
Health						
In Sickness and in Health: Healthy Workplaces for British Columbia's Health Care Workers	Jun 2004	37	33	1	3	
Managing PharmaCare: Slow Progress Toward Cost-Effective Drug Use and a Sustainable Program	Mar 2006	15	15			
Infection Control: Essential for a Healthy British Columbi	Mar 2007	126	124	2		
The Child and Youth Mental Health Plan: A Promising Start to an Urgent Need	Jun 2007	11	11			
Preventing and Managing Diabetes in British Columbia	Dec 2007	3			3	
Interior Health Authority: Working to Improve Access to Surgical Services	Aug 2008	12	8	2	2	
Electronic Health Record Implementation in British Columbia	Feb 2010	1	1			

APPENDIX B: CUMULATIVE TOTALS OF RECOMMENDATIONS FROM OCTOBER 2008 TO MARCH 2012 FOLLOW-UP REPORTS

			Cumulative status of recommendations			
Report	Report Initially Released	Number of Recommendations in Report	Fully or Substantially Implemented	Alternative Action Taken	Partially Implemented	No Substantial Action Taken
Information Technology						
IT Audits of the Corporate Accounting System	2005/2006	25	24	1		
Managing Access to the Corrections Case Management System **	Mar 2008	9	9			
Managing Government's Payment Processing	May 2008	34	26	4	4	
Wireless Networking Security in Victoria Government Offices: Gaps in the Defensive Line	Feb 2009	4	3		1	
The PARIS System for Community Care Services: Access and Security	Feb 2010	10	9		1	
Wireless Networking Security in Government: Phase 2	Mar 2010	17	8	6	3	
IT Continuity Planning in Government	Apr 2010	9	7		2	
Information Security Management: An Audit of How Well Government is Identifying and Assessing Its Risks	Dec 2010	6	5		1	
Wireless Networking Security in Government: Phase 3	Dec 2011	22	5	1	12	4
Social Services						
Management of Aboriginal Child Protection Services: Ministry of Children and Family Development	May 2008	10	4	6		
Home and Community Care Services: Meeting Needs and Preparing for the Future	Oct 2008	10	9		1	
Homelessness: Clear Focus Needed	Mar 2009	7	5	2		
Transportation						
Changing Course – A New Direction for British Columbia's Coastal Ferry System: A Review of the Transformation of BC Ferries	Dec 2006	3	1	2		
Switching Tracks: A Review of the BC Rail Investment Partnership	Mar 2007	1	1			
Upkeep of the Provincial Roads Network by the Ministry of Transportation and Infrastructure	Nov 2010	10	1		8	1
Total Recommendations		**533**	**399**	**43**	**77**	**14**
Percent of Total Recommendations		**74.9%**	**8.1%**	**14.4%**	**2.6%**	

** 92 recommendations refers to the total number of recommendations in the detailed management report. Due to the sensitivity of the information involved, the public report contained only nine summarized recommendations.

APPENDIX C: PROJECTED FOLLOW-UP SCHEDULE

This appendix details the Office of the Auditor General's current schedule for follow-ups over the next 12 months.

Reports by Sector	Report Initially Released	1st Follow Up	2nd Follow Up	3rd/4th Follow Up
Education				
School District 35 – Langley	Dec 2010	Oct 2011	Oct 2012	
Managing for Results: Post-Secondary Accountability Framework Audit	Dec 2011	Oct 2012		
Environment				
Conservation of Ecological Integrity in B.C. Parks and Protected Areas	Aug 2010	Oct 2011	Oct 2012	
Audit of the Agricultural Land Commission	Sep 2010	Oct 2011	Oct 2012	
An Audit of the Management of Groundwater Resources in British Columbia	Dec 2010	Apr 2012	Oct 2012	
An Audit of the Environmental Assessment Office's Oversight of Certified Projects	Jul 2011	Oct 2012		
An Audit of the Ministry of Forests, Lands and Natural Resource Operations' Management of Timber	Feb 2012	Apr 2013		
Finance				
Managing Fraud Risks in Government	Aug 2010	Oct 2011	Apr 2012	Oct 2012
Year-End Government Transfer Expenditures	Aug 2010	Oct 2011	Apr 2012	Oct 2012
BC Hydro: The Effects of Rate-Regulated Accounting	Oct 2011	Apr 2012	Oct 2012	
Organizational Costing of Fee-Based Goods and Services	Dec 2011	Oct 2012		
Governance & Accountability				
The Status of Enterprise Risk Management in the Government Ministries of British Columbia	Jun 2011	Oct 2012		
Health				
Hand Hygiene: Self-Assessment	Dec 2010	Oct 2011	Oct 2012	
Information Technology				
Wireless Networking Security in Government: Phase 2	Mar 2010	Apr 2011	Oct 2011	Apr 2012, Oct 2012
IT Continuity Planning in Government	Apr 2010	Apr 2011	Oct 2011	Apr 2012, Oct 2012
Information Security Management: An Audit of How Well Government is Identifying and Assessing its Risks	Dec 2010	Apr 2012	Oct 2012	
Wireless Networking Security in Government: Phase 3	Dec 2011	Apr 2012	Oct 2012	
Justice & Public Safety				
British Columbia Coroners Service	Jul 2011	Oct 2012		
Effectiveness of BC Community Corrections	Dec 2011	Apr 2013		
Transportation				
Upkeep of the Provincial Roads Network by the Ministry of Transportation and Infrastructure	Nov 2010	Oct 2011	Oct 2012	

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